

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

1. REORGANIZATION AND BASIS OF PRESENTATION

Natural Beauty Bio-Technology Limited (“the Company”) was incorporated in the Cayman Islands on 29 June 2001 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

Pursuant to a group reorganization (the “Reorganization”) in connection with the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the other companies comprising the Group on 11 March 2002. Further details of the Reorganization are set out in the Company’s Prospectus dated 19 March 2002. The shares of the Company were listed on the Stock Exchange on 28 March 2002.

As of 31 December 2001, the Company did not carry out any activity except for the issuance of one share, which was paid up by the subscriber at a par value of HK\$ 0.10.

The Company and its subsidiaries (collectively referred to as the “Group”) resulting from the Reorganization have been regarded as a continuing group. Accordingly, the Reorganization has been accounted for on the basis of merger accounting, under which consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31 December 2001 and 2000, or since their respective dates of the incorporation or establishment, whichever is later.

As of 31 December 2001, the Company has direct or indirect interests in the following subsidiaries, all of which have substantially the same characters as a Hong Kong incorporated private company. Details of these companies are as follows:

Name	Note	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Registered share capital	Principal activities
Shanghai Natural Beauty Cosmetics Co., Ltd. (“NB Shanghai”)*		PRC 23 November 1992	100%	United States Dollars (“US\$”) 15,000,000	US\$15,000,000	Production and sales of skin care and beauty products
Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd. (“NB Sanlian”)*	(1)	PRC 12 December 1994	90%	Renminbi (“RMB”) 8,000,000	RMB8,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service
Xi An Natural Beauty Mingyu Cosmetics Co., Ltd. (“NB Xi An”, Note 26(d))*		PRC 10 March 1995	45.9%	RMB3,000,000	RMB3,000,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training

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1. REORGANIZATION AND BASIS OF PRESENTATION (continued)

Name	Note	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Registered share capital	Principal activities
Qingdao Natural Beauty Ornaments Co., Ltd.* ("NB Qingdao", Note 26(d))*		PRC 7 November 1995	45.9%	RMB4,000,000	RMB4,000,000	Sales of skin care and beauty products and adornment; skin care and beauty consulting
Nanjing Natural Beauty Cosmetics Co., Ltd. ("NB Nanjing", Note 26(d))*		PRC 15 October 1999	45.9%	RMB2,000,000	RMB2,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Cheng Du Natural Beauty Cosmetics Co., Ltd. ("NB Cheng Du", Note 26(e))*		PRC 4 April 2000	67.5%	RMB2,500,000	RMB2,500,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Hai Nan Natural Beauty Cosmetics Co., Ltd.*		PRC 6 December 2000	72%	RMB2,500,000	RMB2,500,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Shenzhen Natural Beauty Cosmetics Co., Ltd.*		PRC 18 December 2000	45.9%	RMB4,000,000	RMB4,000,000	Sales of skin care and beauty products and related instruments
Haerbin Sanlian Natural Beauty Cosmetics Co., Ltd.*		PRC 18 December 2000	54%	RMB1,000,000	RMB1,000,000	Sales of skin care and beauty products and related instruments
Ning Bo Hai Shu Natural Beauty Cosmetics Co., Ltd.*		PRC 21 December 2000	63%	RMB3,500,000	RMB3,500,000	Sales of skin care and beauty products and related instruments
Wu Han Natural Beauty Cultural Development Co., Ltd.*		PRC 27 December 2000	45.9%	RMB2,500,000	RMB2,500,000	Sales of skin care and beauty products and instrument
Jiangxi Natural Beauty Sanlian Cosmetics Co., Ltd.*		PRC 17 January 2001	45.9%	RMB3,000,000	RMB3,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training

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1. REORGANIZATION AND BASIS OF PRESENTATION (continued)

Name	Note	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Registered share capital	Principal activities
Tianjin Natural Beauty Cosmetics Co., Ltd.*		PRC 6 March 2001	45.9%	RMB2,000,000	RMB2,000,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training
Wen Zhou Natural Beauty Cosmetics Co., Ltd.*		PRC 14 March 2001	45.9%	RMB2,000,000	RMB2,000,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training
Beijing Natural Beauty Cosmetics Co., Ltd.*		PRC 23 March 2001	45.9%	RMB20,000,000	RMB20,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Kun Shan Natural Beauty Sanlian Cosmetics Co., Ltd.*		PRC 6 April 2001	45.9%	RMB1,500,000	RMB1,500,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Long Yan Natural Beauty Cosmetics Co., Ltd.*		PRC 11 May 2001	45.9%	RMB800,000	RMB800,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training
Xiang Fan Natural Beauty Cosmetics Co., Ltd.*		PRC 17 May 2001	45.9%	RMB1,000,000	RMB1,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Taiyuan Natural Beauty Cosmetics Co., Ltd.*		PRC 19 May 2001	45.9%	RMB1,000,000	RMB1,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Chang Chun Natural Beauty Cosmetic Co., Ltd.*		PRC 24 May 2001	45.9%	RMB1,500,000	RMB1,500,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training

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1. REORGANIZATION AND BASIS OF PRESENTATION (continued)

Name	Note	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Registered share capital	Principal activities
Mudanjiang Natural Beauty Cosmetics Co., Ltd.*		PRC 1 June 2001	54%	RMB800,000	RMB800,000	Sales of skin care and beauty products and related instruments
Lan Zhou Natural Beauty Cosmetic Co., Ltd.*		PRC 7 June 2001	49.5%	RMB1,000,000	RMB1,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Anshan Natural Beauty Cosmetics Co., Ltd.*		PRC 13 June 2001	45.9%	RMB1,000,000	RMB1,000,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training
Henan Natural Beauty Cosmetics Co., Ltd.*		PRC 17 June 2001	45.9%	RMB3,000,000	RMB3,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Su Zhou Natural Beauty Cosmetics Co., Ltd.*		PRC 20 June 2001	45.9%	RMB1,200,000	RMB1,200,000	Sales of skin care and beauty products and related instruments
Kunming Natural Beauty Cosmetics Co., Ltd.*		PRC 3 July 2001	63%	RMB1,000,000	RMB1,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Fuzhou Natural Beauty Cosmetics Co., Ltd.*		PRC 16 July 2001	45.9%	RMB1,500,000	RMB1,500,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training
Natural Beauty Cosmetics Co., Ltd. ("NB Taiwan") *	(2)	Taiwan 25 June 1984	99.959%	Taiwan Dollars ("NT\$") 660,000,000	NT\$660,000,000	Production and sales of skin care and beauty products
Tian Ran Mei Co., Ltd. ("Tian Ran Mei") *	(2)	Taiwan 30 December 1991	99.759%	NT\$30,000,000	NT\$30,000,000	Dormant
Da Shun Development Co., Ltd.*	(2)	Taiwan 24 December 1997	99.94%	NT\$90,000,000	NT\$90,000,000	Investment holding

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1. REORGANIZATION AND BASIS OF PRESENTATION (continued)

Name	Note	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group	Issued and fully paid capital	Registered share capital	Principal activities
Jiun Yuh Investment Co., Ltd. ("Jiun Yuh")*	(2)	Taiwan 29 December 1997	99.97%	NT\$174,681,140	NT\$174,681,140	Investment holding
Huei Yao, Investment Co., Ltd.*	(2)	Taiwan 29 December 1997	99.97%	NT\$234,681,140	NT\$234,681,140	Investment holding
Wan Fang Investment Co., Ltd.*	(2)	Taiwan 31 December 1997	99.97%	NT\$242,681,140	NT\$242,681,140	Investment holding
Belem Holdings Sdn. Bhd. ("Belem Holdings")		Malaysia 19 August 1999	100%	Malaysian Ringgit ("RM") 123,235,408 Class B shares 10,000 Class A shares	RM150,000,000	Investment holding
Ice Crystal Management Limited ("Ice Crystal")		British Virgin Islands ("BVI") 5 January 2000	100%	US\$52,000	US\$100,000	Investment holding
Great Glamour Co., Ltd. ("Great Glamour")		BVI 22 January 2001	100%	US\$50,000	US\$50,000	Investment holding
Natural Beauty Bio-Technology (Hong Kong) Co., Ltd. ("NB Hong Kong")*		Hong Kong 16 May 2001	100%	HK\$10,000	HK\$10,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training

* These subsidiaries are indirectly held by the Company.

(1) On 20 December 2001, NB Shanghai entered into an agreement with the 10 per cent minority shareholder of its subsidiary, NB Sanlian, under which the minority shareholder entrusted its entire investment in NB Sanlian to NB Shanghai. In return, NB Shanghai would be entitled to all the profits derived from the entrusted investment effective from 31 May 2001, after deducting a fixed return of RMB 200,000 per annum payable to the minority shareholder. The RMB200,000 fixed return per annum attributable to the minority shareholder was recorded as minority interest expense of the Group and the remaining results of NB Sanlian were included in the consolidated financial statement of the Group.

(2) These Taiwan Companies are audited by KPMG Certified Public Accountants.

No financial statements have been prepared by Ice Crystal, Belem Holdings, and Great Glamour since their respective dates of incorporation or establishment. These companies are newly incorporated and have not carried out any businesses since their incorporation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements are prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

(b) Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealized profits are eliminated in full. Unrealized losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment and depreciation (continued)

Except for freehold land, depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The estimated useful lives and residual values are as follows:

Description	Useful life	Residual value
Land and buildings	40-55 years	0%-10%
Leasehold improvements	Over the unexpired period of the lease	—
Machinery and equipment	5-10 years	0%-10%
Motor vehicles	3-5 years	0%-10%
Office equipment and fixtures	2-15 years	0%-10%

Construction-in-progress represents plant and properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

(d) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their long-term investment potential.

Investment properties are stated at open market value determined annually by independent valuers.

Increases in the carrying amount of investment properties are credited to the revaluation reserve in shareholders' equity. Decreases are first offset against increases on earlier valuations in the revaluation reserve, unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the amount by which the deficit exceeds the total amount in the investment property revaluation reserve should be charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus should be credited to the profit and loss account to the extent of the deficit previously charged.

Upon the disposal of an investment property, the realized portion of the revaluation reserve is credited to the income statement as part of the profit or loss on disposal of the investment property.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on their carrying value over the unexpired lease term.

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2. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Investment in an associate

Investment in an associate where significant influence is exercised by the Group are accounted for using the equity method in the consolidated financial statements, whereby the investment is initially recorded at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the associate, distributions received from the associate and other necessary alterations in the Group's proportionate interest in the associate arising from changes in the equity of the associate that have not been included in the income statement and less any accumulated impairment losses. The Group's share of post-acquisition results of associate is included in the consolidated income statement.

(f) Other long-term investments

Other long-term investments are stated at cost less provision for any impairment in value and are included in non-current assets. An assessment of long-term investments is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. Income derived from these investments is accounted for to the extent of dividends received or receivable.

Upon disposal of a long-term investment, the difference between net proceeds on disposal and the carrying amount is charged or credited to the income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(h) Receivables

Receivables are stated at their cost, after provision for doubtful accounts.

Notes to the Consolidated Financial Statements

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2. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Short-term investments

Securities that are acquired and held for the purpose of generating a profit from short-term fluctuations in price or dealer's margin are designated as short-term investments and are included in the balance sheet at their fair values. Any changes in the fair values of short-term investments are recognized in the income statement when they arise.

Upon disposal of short-term investments, any profit and or loss is accounted for in the income statement.

(j) Cash and cash equivalents

Cash represents cash on hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(k) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized on the following bases:

(i) Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) Rendering of services

Service income is recognized as services are rendered.

(iii) Rental income

Rental income is recognised on a straight-line basis over the lease term.

(iv) Interest income

Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on the assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Taxation

(i) Value-Added Tax ("VAT")

The Group's companies incorporated in the PRC (the "PRC Companies") are subject to VAT, which is levied at 17 per cent on the gross turnover upon sale or purchase of goods. Input VAT paid on purchases of raw materials, semi-finished products, etc., may be used to offset the VAT payable on sales to determine the net VAT payable.

(ii) Consumption Tax

NB Shanghai is subject to consumption tax, which is levied at 30 per cent on its beauty products gross turnover and at 8 per cent on its skin care products and aromatherapeutic products gross turnover.

(iii) Income Taxes

The companies of the Group provide for income taxes on the basis of their profit for financial reporting purposes adjusted for income and expense items, which are not assessable or deductible for income tax purposes.

(iv) Deferred Taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of the timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(m) Pension costs

The contributions relating to defined contribution plans are charged to the income statement in the period to which they relate.

Pension funds for defined benefit plans are valued every year by professionally qualified independent actuaries. The obligation and costs of pension benefits are determined using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Gains or losses on the curtailment or settlement of pension benefits are recognised when the curtailment or settlement occurs. Actuarial gains or losses are amortised based on the expected average remaining working lives of the employees. The pension obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the government bonds are consistent with the currency and estimated terms of the defined benefit obligation.

Notes to the Consolidated Financial Statements

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2. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

(o) Deferred expenditures

Deferred expenditures mainly comprised costs incurred for the development of a web site. The amounts will be amortized on a straight-line basis over a period of five years from the date the web site is ready for use.

(p) Foreign currencies

The Company and its subsidiaries maintain their books and records in the primary currencies of their respective countries (the "respective reporting currencies"). Transactions in other currencies are translated into the reporting currency at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at that date. All exchange differences are recognized in the income statement in the period in which they arise.

The Group prepares consolidated financial statements in HK\$. For the purpose of consolidation, the financial statements prepared in other currencies are translated at exchange rates prevailing at period end with respect to the consolidated balance sheet, and at exchange rates at the dates of the transactions with respect to the consolidated results of operations of the Group. All resulting translation differences are included in a translation reserve in equity.

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3. SEGMENT INFORMATION

(a) Geographical segment

The Group conducts the majority of its business activities in two geographical areas, the PRC and Taiwan. An analysis by geographical segment is as follows:

	PRC		Taiwan		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE	155,256	89,549	102,170	115,965	257,426	205,514
RESULTS						
Operating profit	40,179	39,362	36,265	37,787	76,444	77,149
Finance (expense)						
income, net	(82)	415	646	385	564	800
Investment income	—	—	3,017	3,310	3,017	3,310
Share of profit						
of an associate	73	—	—	—	73	—
Others	680	(1,174)	1,404	1,322	2,084	148
Income taxes	(427)	—	(12,037)	(11,330)	(12,464)	(11,330)
Minority interests	1,338	(28)	(13)	84	1,325	56
Net profit	41,761	38,575	29,282	31,558	71,043	70,133
OTHER INFORMATION						
Segment assets	318,409	215,777	323,617	386,324	642,026	602,101
Investment in						
an associate	—	236	—	—	—	236
Subtotal	318,409	216,013	323,617	386,324	642,026	602,337
Unallocated assets					5,463	1,298
Total assets					647,489	603,635
Segment liabilities	116,869	80,205	42,545	52,920	159,414	133,125
Unallocated liabilities					5,463	1,298
Total liabilities					164,877	134,423
Minority interests	28,153	4,182	116	134	28,269	4,316

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3. SEGMENT INFORMATION (continued)

(b) Business segment

Other than the skin care, beauty and aromatherapeutic business segment, the Group held certain land and buildings for investment purposes as described in Note 12. Details of this business segment are presented below:

	2001 HK\$'000	2000 HK\$'000
Revenue	<u>2,860</u>	<u>3,137</u>
Net profit	<u>1,231</u>	<u>1,409</u>
Segment assets	<u>140,924</u>	<u>168,782</u>

4. TURNOVER

Turnover represents the net invoiced value of goods sold or services rendered after allowances for returns and discounts, net of consumption tax.

An analysis of turnover by major products and service lines is as follows:

	2001 HK\$'000	2000 HK\$'000
Skin care products	200,090	160,255
Beauty products	5,439	7,163
Aromatherapeutic products	15,621	7,820
Skin treatments, beauty and SPA services	20,741	7,716
Beauty training	3,804	1,021
Rental income	2,860	3,137
Others	8,871	18,402
	<u>257,426</u>	<u>205,514</u>

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5. GROSS PROFIT

An analysis of gross profit (loss) by major products and service lines is as follows:

	2001 HK\$'000	2000 HK\$'000
Skin care products	167,579	138,583
Beauty products	3,937	5,583
Aromatherapeutic products	10,837	5,210
Skin treatments, beauty and SPA services	1,457	(256)
Beauty training	378	360
Rental income	1,231	1,409
Others	6,558	11,011
	<u>191,977</u>	<u>161,900</u>

6. PROFIT BEFORE TAX

Profit before tax was determined after crediting and charging the followings:

	2001 HK\$'000	2000 HK\$'000
Crediting:		
Interest income on bank deposits	1,355	903
Realized gain on disposal of short-term investments	3,017	4,386
Reversal of provision for write-down of inventory	630	161
Reversal of provision for doubtful debts	595	—
Gain on disposals of property, plant and equipment	132	—
Charging:		
Staff costs, excluding directors' emoluments (Note 8)		
- Salaries and wages	25,732	20,497
- Pension costs (Note 21)		
- PRC	1,887	880
- Taiwan	1,048	1,220
Depreciation of property, plant and equipment	12,870	5,757
Provision for doubtful debts	—	311
Unrealized loss on short-term investments	—	1,076
Interest expense on bank borrowings	791	103
Operating lease expense on land and buildings	11,661	744
Research and development costs	1,123	982
Amortization of other long-term assets	133	47
Loss on disposals of property, plant and equipment	—	614
Auditors' remuneration	737	279
	<u>25,732</u>	<u>20,497</u>

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7. INCOME TAX EXPENSE

(a) Taxation represents:

	2001	2000
	HK\$'000	HK\$'000
Current income tax		
- Hong Kong profits tax (Note (i))	—	—
- PRC income tax (Note (ii))	23,601	14,175
- Taiwan income tax (Note (iii))	11,683	11,244
	<u>35,284</u>	<u>25,419</u>
Deferred taxation		
- The Group's companies incorporated in Taiwan ("Taiwan Companies") (Note 14)	<u>354</u>	<u>86</u>
Financial refunds		
- The PRC Companies (Note (ii))	<u>(23,174)</u>	<u>(14,175)</u>
	<u>12,464</u>	<u>11,330</u>

- (i) No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong for the year ended 31 December 2001.
- (ii) The PRC income tax for the year ended 31 December 2001 represents enterprise income tax ("EIT") on the taxable income reported in the statutory accounts of the PRC Companies.

In accordance with the relevant tax laws and regulations of the PRC, the PRC Companies except NB Shanghai are subject to EIT at a rate of 33 per cent. NB Shanghai is subject to EIT at a rate of 27 per cent and is entitled to full exemption from EIT for the first two years and a 50 per cent reduction for the next three years, commencing from 1995 (its first profitable year) after offsetting available tax losses carried forward from previous years. Based on Notice Chong Cai You (96) No. 1-009-1045 issued by the local finance bureau, NB Shanghai and NB Sanlian would be granted financial refunds equivalent to the amount of EIT paid from 1996 to 2000. In addition, based on Chong Fu Ban Han [2001] No. 57, such financial refund policy will be extended to 31 December 2001. Up to the date of this report, NB Shanghai and NB Sanlian have not been informed that there will be any changes to the above arrangements on financial refunds and all financial refunds granted have been subsequently received. As the granting of financial refunds is regulated and should be approved by the State Council, there is no assurance that NB Shanghai and NB Sanlian will still be able to enjoy such financial refunds after 31 December 2001.

- (iii) The Taiwan income tax for the year ended 31 December 2001 represents income taxes charged at a rate of 25 per cent on the taxable income of Taiwan Companies.

Income tax is charged at a rate of 10 per cent on the unappropriated profits in the year, when shareholders have resolved that the unappropriated profits shall be retained.

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7. INCOME TAX EXPENSE (continued)

(b) The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rates is as follows:

(i) The PRC Companies

	2001 HK\$'000	2000 HK\$'000
Accounting profit	<u>40,850</u>	<u>38,603</u>
Tax at applicable tax rate of 33%	13,481	12,739
Different tax rate of NB Shanghai	(124)	(7)
Net tax effect of income and expense items which are not assessable or deductible for income tax purpose	2,318	1,309
Tax effect of timing differences not accounted for	<u>7,926</u>	<u>134</u>
Income tax expense	<u><u>23,601</u></u>	<u><u>14,175</u></u>

(ii) Taiwan Companies

	2001 HK\$'000	2000 HK\$'000
Accounting profit	<u>41,332</u>	<u>42,804</u>
Tax at applicable tax rate of 25%	10,333	10,701
Net tax effect of income and expense items which are not assessable or deductible for income tax purpose	<u>1,704</u>	<u>629</u>
Income tax expense	<u><u>12,037</u></u>	<u><u>11,330</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Details of emoluments paid to the directors, senior executives and supervisors are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees for executive directors	—	—
Fees for non-executive directors and supervisors	—	—
Other emoluments for executive directors		
- Basic salaries and allowances	523	583
- Discretionary bonuses	—	—
- Others	—	—
Other emoluments for non-executive directors	—	—
Other emoluments for supervisors	1,327	1,307
	<u>1,850</u>	<u>1,890</u>
Number of directors	2	2
Number of supervisors	10	9
	<u>12</u>	<u>11</u>

(b) Details of emoluments paid to the five highest paid individuals (including directors and employees) are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries and allowances	1,198	1,338
Discretionary bonuses	—	—
Others	—	—
	<u>1,198</u>	<u>1,338</u>
Number of directors	2	2
Number of employees	3	3
	<u>5</u>	<u>5</u>

The remuneration paid to each of the five highest paid individuals (including directors and employees) for the year ended 31 December 2001 were less than HK\$ 1,000,000.

For the year ended 31 December 2001, no emoluments were paid to the five highest paid individuals (including directors and employees) as inducement to join or, upon joining the Group, as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

9. DIVIDENDS

No dividends have been paid or declared by the Company from the date of its incorporation to 31 December 2001.

The dividends declared by the Group's companies to their then equity holders are as follows:

	2001 HK\$'000	2000 HK\$'000
Dividends declared	<u>39,678</u>	<u>66,850</u>

Pursuant to a resolution of board of directors on 25 April 2002, the board of directors of the Company proposed to distribute a cash dividend of HK\$0.01148 per share amounting HK\$22,968,000 for the year ended 31 December 2001, which is subject to the approval by shareholders at the forthcoming annual general meeting.

The rates of dividend and number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of these financial statements.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share on a pro forma weighted average basis is based on the consolidated net profit for the year of HK\$ 71,043,000 (2000: HK\$ 70,133,000), and on the pro forma weighted average number of 1,500,000,000 shares (2000: 1,500,000,000 shares) in issue and issuable, comprising 3,900,000 shares in issue as of 31 December 2001 and 1,496,000,000 shares to be issued pursuant to the "Capitalisation Issue" and "Share Offer" as described in the Company's Prospectus dated 19 March 2002.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

11. PROPERTY, PLANT AND EQUIPMENT

	Year ended 31 December 2001						Total HK\$'000
	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Office equipment and fixtures HK\$'000	Construction -in-progress HK\$'000	
Cost							
Beginning balance	150,734	7,301	6,344	1,684	25,395	11,618	203,076
Consolidation of NB Cheng Du	—	—	—	169	160	—	329
Acquisition of subsidiaries	—	811	—	225	712	—	1,748
Additions	1,745	17,079	426	2,739	21,059	34,227	77,275
Reclassification	—	9,797	—	—	3,572	(13,369)	—
Disposals	(637)	(250)	(11)	—	(3,142)	—	(4,040)
Currency realignment	(4,496)	(1,018)	(206)	(102)	(1,159)	(248)	(7,229)
Ending balance	<u>147,346</u>	<u>33,720</u>	<u>6,553</u>	<u>4,715</u>	<u>46,597</u>	<u>32,228</u>	<u>271,159</u>
Accumulated depreciation							
Beginning balance	7,163	1,117	3,858	811	9,758	—	22,707
Consolidation of NB Cheng Du	—	—	—	17	73	—	90
Acquisition of subsidiaries	—	223	—	63	205	—	491
Additions	3,080	3,552	551	487	5,200	—	12,870
Disposals	(23)	(250)	—	—	(278)	—	(551)
Currency realignment	(519)	(103)	(164)	(46)	(352)	—	(1,184)
Ending balance	<u>9,701</u>	<u>4,539</u>	<u>4,245</u>	<u>1,332</u>	<u>14,606</u>	<u>—</u>	<u>34,423</u>
Net book value							
Ending balance	<u>137,645</u>	<u>29,181</u>	<u>2,308</u>	<u>3,383</u>	<u>31,991</u>	<u>32,228</u>	<u>236,736</u>
Beginning balance	<u>143,571</u>	<u>6,184</u>	<u>2,486</u>	<u>873</u>	<u>15,637</u>	<u>11,618</u>	<u>180,369</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Year ended 31 December 2000						
	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Office equipment and fixtures HK\$'000	Construction -in-progress HK\$'000	Total HK\$'000
Cost							
Beginning balance	56,214	1,110	6,443	2,119	16,162	62,094	144,142
Additions	964	6,316	101	—	12,802	43,339	63,522
Reclassification	93,894	—	—	—	—	(93,894)	—
Disposal of a subsidiary	—	—	—	—	(49)	—	(49)
Disposals	—	—	(193)	(428)	(3,412)	—	(4,033)
Currency realignment	(338)	(125)	(7)	(7)	(108)	79	(506)
Ending balance	<u>150,734</u>	<u>7,301</u>	<u>6,344</u>	<u>1,684</u>	<u>25,395</u>	<u>11,618</u>	<u>203,076</u>
Accumulated depreciation							
Beginning balance	5,884	446	3,479	685	9,721	—	20,215
Additions	1,342	678	566	278	2,893	—	5,757
Disposal of a subsidiary	—	—	—	—	(8)	—	(8)
Disposals	—	—	(175)	(147)	(2,828)	—	(3,150)
Currency realignment	(63)	(7)	(12)	(5)	(20)	—	(107)
Ending balance	<u>7,163</u>	<u>1,117</u>	<u>3,858</u>	<u>811</u>	<u>9,758</u>	<u>—</u>	<u>22,707</u>
Net book value							
Ending balance	<u>143,571</u>	<u>6,184</u>	<u>2,486</u>	<u>873</u>	<u>15,637</u>	<u>11,618</u>	<u>180,369</u>
Beginning balance	<u>50,330</u>	<u>664</u>	<u>2,964</u>	<u>1,434</u>	<u>6,441</u>	<u>62,094</u>	<u>123,927</u>

An analysis of net book value of land and buildings is as follows:

	2001 HK\$'000	2000 HK\$'000
Held in Hong Kong	—	—
Held outside Hong Kong		
Freehold	40,890	45,455
Leasehold		
- Long-term leases	—	—
- Medium-term leases	96,755	98,116
	<u>137,645</u>	<u>143,571</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

12. INVESTMENT PROPERTIES

NB Taiwan held the following office buildings as investment properties as of 31 December 2001:

- (a) 1st-10th Floors, Nos. 186 and 188, Sec. 2, Chun-Hsin Road, Hsin-Tien City, Taipei, Taiwan.
- (b) No. 1 of 3rd Floor, No. 2 of 3rd Floor, No. 3 of 3rd Floor and No. 5 of 3rd Floor, No. 128, Sec. 2, Chung-Der Road, Taichung, Taiwan.

The movements of investment properties are as follows:

	2001 HK\$'000	2000 HK\$'000
Valuation amount		
Beginning balance	168,782	185,185
Deficit on revaluation	(13,517)	(14,680)
Currency realignment	(14,341)	(1,723)
	<u>140,924</u>	<u>168,782</u>
Ending balance	<u>140,924</u>	<u>168,782</u>

The carrying amount of investment properties is analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Valuation amount		
Held in Hong Kong	—	—
Held outside Hong Kong		
Freehold	140,924	168,782
Leasehold	—	—
	<u>140,924</u>	<u>168,782</u>

The investment properties as of 31 December 2001 were valued by an independent valuer, Vigers Hong Kong Ltd. on an open market basis.

As of 31 December 2001, approximately HK\$ 137,589,000 (2000: HK\$ 139,865,000) of the investment properties were mortgaged as collateral for the Group's banking facilities as described in Note 25(c).

Subsequent to 31 December 2001, the Group released the banking facilities and the relevant mortgage.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

13. OTHER LONG-TERM INVESTMENTS

	2001	2000
	HK\$'000	HK\$'000
Unlisted equity securities, at cost	4,774	4,774
Currency realignment	(328)	100
	<u>4,446</u>	<u>4,874</u>

14. DEFERRED TAX ASSETS

(a) Movements of deferred tax assets are as follows:

	2001	2000
	HK\$'000	HK\$'000
Beginning balances	1,535	2,095
Current year timing difference (Note 7(a))	(354)	(86)
Disposal of a subsidiary (Note 26(f))	—	(454)
Currency realignment	(161)	(20)
Ending balances	<u>1,020</u>	<u>1,535</u>

(b) Deferred tax assets are attributable to the following items:

	2001	2000
	HK\$'000	HK\$'000
Provision for retirement benefit obligations	1,694	1,666
Provision for doubtful debts	7	126
Provision to write down inventory	217	286
Write-off of deferred expenditures	65	71
Others	(963)	(614)
	<u>1,020</u>	<u>1,535</u>

15. DEFERRED EXPENDITURES

Deferred expenditures represent costs incurred for the development of the "Natural Beauty" web site, which would also facilitate the launch of the Group's e-commerce activities in the near future. This project, which was developed at a cost of approximately HK\$4.5 million, is near completion and is currently being tested. Part of the project was undertaken by a related company, where a director has significant influence, for a consideration of approximately HK\$1.6 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

16. INVENTORIES

	2001 HK\$'000	2000 HK\$'000
Raw materials	22,908	19,669
Work in progress	2,410	2,098
Finished goods	28,964	25,524
	<u>54,282</u>	<u>47,291</u>
Less: provision for inventory obsolescence	(1,608)	(2,238)
	<u><u>52,674</u></u>	<u><u>45,053</u></u>

17. TRADE RECEIVABLES

	2001 HK\$'000	2000 HK\$'000
Accounts receivable	24,595	16,278
Notes receivable	3,174	111
	<u>27,769</u>	<u>16,389</u>
Less: provision for doubtful debts	(353)	(948)
	<u><u>27,416</u></u>	<u><u>15,441</u></u>

An aging analysis of trade receivables is as follows:

	2001 HK\$'000	2000 HK\$'000
Within 1 year	27,405	15,876
1 to 2 years	133	4
Over 2 years	231	509
	<u><u>27,769</u></u>	<u><u>16,389</u></u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER CURRENT ASSETS

GROUP

	2001 HK\$'000	2000 HK\$'000
Advances to third parties	1,784	5,194
Prepaid share issuance expenditures (Note (a))	5,463	1,298
Financial refunds receivable (Note (b))	15,076	9,059
Advances to suppliers	11,371	6,735
Deposits	2,262	902
Amounts due from minority shareholders	765	—
Others	1,300	2,752
	<u>38,021</u>	<u>25,940</u>
Less: Provision for doubtful debts	<u>(1,266)</u>	<u>(1,266)</u>
	<u>36,755</u>	<u>24,674</u>

COMPANY

	2001 HK\$'000	2000 HK\$'000
Prepaid share issuance expenditures (Note (a))	<u>5,463</u>	<u>—</u>

- (a) Prepaid share issuance expenditures represented costs incurred in connection with the proposed issuance and listing of the Company's shares on the Stock Exchange and will be deducted from shares premium arising from the proposed share issuance.
- (b) For details of financial refunds receivable, see Note 7(a). Such amounts have been received subsequent to year-end.

19. SHORT-TERM INVESTMENTS

	2001 HK\$'000	2000 HK\$'000
Listed securities in Taiwan, at quoted market value		
- Bond funds	<u>65,750</u>	<u>45,995</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

20. CAPITAL AND RESERVES

(a) Distributable reserves

As of 31 December 2001, reserves available for distribution by the subsidiaries comprising the Group, which are ultimately distributable to the shareholders of the Company immediately after the Reorganization, amounted to approximately HK\$105,612,000.

(b) Net assets of the Group

	Share capital HK\$'000	Capital surplus HK\$'000	Property revaluation reserve HK\$'000	Reserves			Exchange translation reserve HK\$'000	Total shareholders' reserves HK\$'000	Total fund HK\$'000
				Statutory reserve HK\$'000	Retained profits HK\$'000				
Balances as of									
31 December 1999	129,881	94,766	40,430	15,855	83,511	11,236	245,798	375,679	
Issue of share capital of subsidiaries	99,062	5,173	—	—	—	—	5,173	104,235	
Profit attributable to shareholders	—	—	—	—	70,133	—	70,133	70,133	
Statutory reserve	—	—	—	4,925	(4,925)	—	—	—	
Dividends (Note 9)	—	—	—	—	(66,850)	—	(66,850)	(66,850)	
Deficit on revaluation of investment properties	—	—	(14,675)	—	—	—	(14,675)	(14,675)	
Currency realignment	—	—	—	—	—	(3,626)	(3,626)	(3,626)	
Balances as of									
31 December 2000	228,943	99,939	25,755	20,780	81,869	7,610	235,953	464,896	
Issue of share capital of subsidiaries	57,385	(57,385)	—	—	—	—	(57,385)	—	
Profit attributable to shareholder	—	—	—	—	71,043	—	71,043	71,043	
Statutory reserve	—	—	—	7,622	(7,622)	—	—	—	
Dividends (Note 9)	—	—	—	—	(39,678)	—	(39,678)	(39,678)	
Deficit on revaluation of investment properties	—	—	(13,512)	—	—	—	(13,512)	(13,512)	
Currency realignment	—	—	—	—	—	(28,406)	(28,406)	(28,406)	
Balances as of									
31 December 2001	386,328	42,554	12,243	28,402	105,612	(20,796)	168,015	454,343	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

20. CAPITAL AND RESERVES (continued)

(b) Net assets of the Group (continued)

- (i) The Company was incorporated on 29 June 2001. On the basis set out in Note 1, the net assets of the Group as of 31 December 2001 amounted to approximately HK\$454,343,000.
- (ii) The authorized share capital of the Company was HK\$390,000, divided into 3,900,000 shares of HK\$0.10 each. As of the date of this report, the paid-up capital of the Company was HK\$0.10. Further changes to the capital structure of the Company have been made to rationalize the Company's capital structure prior to the listing of the Company's shares on the Stock Exchange, subsequent to 31 December 2001. Thus, the number of shares authorized and the number and nominal value of shares issued are not meaningful for the purpose of these financial statements. On the basis set out in Note 1 above, the share capital of the Group as of 31 December 2001 represented the combined paid-up capital of the subsidiaries of the Group.
- (iii) According to the laws and regulations of the PRC, NB Shanghai, shall set aside a portion of its net income as reported in its statutory accounts (the "statutory net income") each year for the statutory general reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund. Such amounts shall be determined at the discretion of the board of directors. Other PRC Companies shall set aside 10 per cent of their statutory net income for the statutory surplus reserve fund until the reserve balance reaches 50 per cent of their paid-in capital, and set aside 5 per cent to 10 per cent of their statutory net income for the statutory public welfare fund.

According to the laws and regulations of Taiwan, Taiwan Companies shall set aside 10 per cent of their statutory net income each year for legal reserve, until the reserve balance has reached the paid-in share capital amount. In addition, Taiwan Companies also have a statutory obligation to set aside 1% of dividends declared to a staff and workers' bonus and welfare fund.

These above-mentioned reserves and funds cannot be used for purposes other than those for which they were created and are not distributable as cash dividends.

Appropriations to the staff and workers' bonus and welfare fund made by NB Shanghai and Taiwan Companies have been included as expense and the balance of the fund as a liability of the Group.

- (iv) Retained profits may be carried forward for future distribution.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

21. PENSION COSTS

(a) The PRC Companies

The PRC Companies have participated in defined contribution plans organized by the relevant local government authorities in the PRC whereby the PRC Companies were required to make monthly contributions to these plans at 14.0 per cent to 32.0 per cent (2000: 31.5 per cent) of the employee's basic salary, of which 9.0 per cent to 25.5 per cent (2000: 25.5 per cent) is borne by the Group and the remainder is borne by the staff. The PRC Companies have no obligation for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above.

(b) Taiwan Companies

Taiwan Companies have pension plans for all regular employees, and the pension is provided based on the length of service and average monthly salary for the final six months of employment.

The companies make monthly contributions, equivalent to 2 per cent of salaries, to a pension fund that is administered by a pension fund monitoring committee. The account of the trust fund managed by Taiwan authorities is in the committee's name.

The changes in the fund and accrued pension costs are summarized as follows:

(i) Components of pension costs

	2001	2000
	HK\$'000	HK\$'000
Service cost	814	938
Interest cost	385	384
Projected return on plan assets	(45)	(73)
Amortisation of net actuarial gain	(106)	(29)
	<u>1,048</u>	<u>1,220</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

21. PENSION COSTS (continued)

(b) Taiwan Companies (continued)

(ii) Reconciliation of the fund status of the plan and accrued pension costs

	2001 HK\$'000	2000 HK\$'000
Benefit obligation		
- Vested benefit obligation	976	794
- Non-vested benefit obligation	4,990	4,153
Accumulated benefit obligation	5,966	4,947
Additional benefits based on future salaries	1,583	1,816
Projected benefit obligation	7,549	6,763
Fair value of plan assets	(1,808)	(1,596)
Fund status	5,741	5,167
Unrecognised net actuarial gain	1,035	1,498
Accrued pension costs	6,776	6,665

(iii) Actuarial assumptions

	2001 HK\$'000	2000 HK\$'000
Discount rate used in determining present values	4.50%	6.00%
Future salary increase rate	2.50%	3.50%
Expected rate of return on plan assets	4.50%	6.00%

(iv) Movements in the accrued pension costs in the consolidated balance sheet

	2001 HK\$'000	2000 HK\$'000
Accrued pension costs, beginning	6,665	5,834
Net expense recognised in income statements	1,048	1,220
Contributions	(322)	(307)
Currency realignments	(615)	(82)
Accrued pension costs, ending	6,776	6,665

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

22. ADVANCES, OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	2001	2000
	HK\$'000	HK\$'000
Deposits from customers	10,214	7,888
Advances from customers	9,282	4,083
Salaries and welfare payable	5,581	4,841
Commissions payable	665	1,340
Staff and workers' bonus and welfare fund payable	3,692	2,570
Payables for purchase of property, plant and equipment	13,284	5,431
Amounts due to minority shareholders	2,684	—
Others	3,781	2,683
	<u>49,183</u>	<u>28,836</u>

23. TAXES PAYABLE

	2001	2000
	HK\$'000	HK\$'000
PRC VAT payable	2,182	2,192
PRC EIT payable	14,054	4,447
Taiwan income tax payable	6,724	5,155
Taiwan business tax payable	1,634	1,042
Others	616	311
	<u>25,210</u>	<u>13,147</u>

24. TRADE PAYABLES

An aging analysis of trade payables is as follows:

	2001	2000
	HK\$'000	HK\$'000
Within 6 months	18,262	10,698
6 months to 1 year	41	1,296
	<u>18,303</u>	<u>11,994</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

25. BORROWINGS

(a) Short-term bank borrowings

	2001	2000
	HK\$'000	HK\$'000
Secured NT\$ loans (Note (c))	—	122
Guaranteed NT\$ loan (Note (c))	333	—
Unsecured NT\$ loans	1,779	—
	<u>2,112</u>	<u>122</u>
	7.35% to	
Interest rate per annum	<u>7.70%</u>	<u>6.75%</u>

(b) Long-term bank borrowings

Long-term bank borrowings bore interest at 7.00% to 7.30% per annum and were repaid in 2001.

(c) Banking facilities

- (i) As of 31 December 2001, NB Taiwan had aggregate banking facilities of approximately HK\$142,257,000 (2000: HK\$155,980,000) for loans, of which none (2000: HK\$366,000) had been utilised.

The above-mentioned banking facilities are secured by certain investment properties of the Group (Note 12) and guaranteed by two directors of the Company.

- (ii) As of 31 December 2001, Jiun Yuh had banking facilities of approximately HK\$2,223,000, of which approximately HK\$2,112,000 had been utilised. Included in the banking facilities was an amount of HK\$333,000 guaranteed by a director of the Company.

- (iii) Subsequent to 31 December 2001, the Group released all the above banking facilities and repaid the relevant borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) The reconciliation of profit before taxation and minority interests to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit before taxation and minority interests	82,182	81,407
(Reversal of) provision for doubtful debts	(595)	311
Reversal of provision for write-down of inventory	(630)	(161)
Depreciation of property, plant and equipment	12,870	5,757
Amortization of other long-term assets	133	47
Net gain from short-term investments	(3,017)	(3,310)
(Gain) loss from disposal of property, plant and equipment	(132)	614
Loss from disposal of a subsidiary (Note (f))	—	100
Share of profit of an associate	(73)	—
Interest expense	791	103
Interest income	(1,355)	(903)
	<hr/>	<hr/>
Operating income before working capital changes	90,174	83,965
(Increase) decrease in trade receivables	(11,380)	10,250
Decrease (increase) in amounts due from related parties	25,274	(2,031)
Decrease in prepayments, other receivables and other current assets	12,156	11,181
Increase in inventories	(4,113)	(19,009)
Increase (decrease) in trade payables	6,309	(3,782)
Increase (decrease) in amounts due to related parties	3,770	(1,072)
Increase in advances, other payables and other current liabilities	11,620	9,171
Increase (decrease) in tax payable other than income taxes payable	887	(117)
Increase in retirement benefit obligation	111	831
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>134,808</u>	<u>89,387</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(b) Analysis of cash and cash equivalent balances

	2001 HK\$'000	2000 HK\$'000
Cash in hand	948	209
Cash at banks		
- Current deposits	75,162	34,304
- Time deposits	—	56,055
	<u>76,110</u>	<u>90,568</u>
Cash and cash equivalents	<u>76,110</u>	<u>90,568</u>

(c) Non-cash transactions

(i) Acquisition of property, plant and equipment

	2001 HK\$'000	2000 HK\$'000
Addition in property, plant and equipment	77,275	63,522
Add:		
Payables for purchase of property, plant and equipment, beginning of year	5,431	—
Less:		
Payables for purchase of property, plant and equipment, end of year	(13,284)	(5,431)
Currency realignment	(3)	—
	<u>69,419</u>	<u>58,091</u>
Cash payments for the increase in property, plant and equipment	<u>69,419</u>	<u>58,091</u>

(ii) Dividends

	2001 HK\$'000	2000 HK\$'000
Dividends declared by the Group's companies	39,678	66,850
Add:		
Dividends payable, beginning of year	56,084	85,532
Less:		
Dividends payable, end of year	(56,084)	(56,084)
Dividends payable capitalized as share capital	—	(84,282)
Currency realignment	—	363
	<u>39,678</u>	<u>12,379</u>
Dividends paid	<u>39,678</u>	<u>12,379</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(c) Non-cash transactions (continued)

(iii) Loans from a related party capitalized as share capital

	2001	2000
	HK\$'000	HK\$'000
Loans from a related party, beginning of year	13,892	39,774
Less:		
Loans from a related party, end of year	—	(13,892)
Loans from a related party capitalized as share capital	—	(19,953)
Currency realignment	(727)	88
	<u>13,165</u>	<u>6,017</u>

(iv) Capital contribution from minority shareholders

	2001	2000
	HK\$'000	HK\$'000
Minority interests, beginning of year	4,316	11,467
Add:		
Loss attributable to minority shareholders	(1,325)	(56)
Property revaluation reserve attributable to minority shareholders	(5)	(5)
Minority interests assumed in acquisition (disposal) of subsidiaries	4,690	(11,028)
Less:		
Minority interests, end of year	(28,269)	(4,316)
Dividends paid to minority shareholders	(116)	(34)
Currency realignment	(11)	(206)
	<u>(20,720)</u>	<u>(4,178)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(d) Acquisition of subsidiaries

- (i) On 30 March 2001, NB Sanlian acquired 51 per cent of equity interest in NB Nanjing at a consideration of approximately HK\$903,000.

The fair value of assets acquired and liabilities assumed was as follows:

	30 March 2001 HK\$'000
Property, plant and equipment	527
Inventories	133
Prepayments, other receivables and other current assets	12
Cash and cash equivalents	1,193
Advances, other payables and other current liabilities	(94)
Minority interests	(868)
	<hr/>
Share of net assets at date of acquisition	903
	<hr/>
Acquisition consideration	903
Less: Cash and cash equivalents acquired	(1,193)
	<hr/>
Net cash inflow from acquisition	(290)
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- (ii) On 13 April 2001, NB Sanlian acquired 51 per cent of equity interest in NB Xi An at a consideration of approximately HK\$1,442,000.

The fair value of assets acquired and liabilities assumed was as follows:

	13 April 2001 HK\$'000
Property, plant and equipment	46
Inventories	958
Prepayments, other receivables and other current assets	289
Cash and cash equivalents	1,660
Advances, other payables and other current liabilities	(125)
Minority interests	(1,386)
	<hr/>
Share of net assets at date of acquisition	1,442
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Acquisition consideration	1,442
Less: Cash and cash equivalents acquired	(1,660)
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Net cash inflow from acquisition	(218)
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Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(d) Acquisition of subsidiaries (continued)

- (iii) On 19 April 2001, NB Sanlian acquired 51 per cent of equity interest in NB Qingdao at a consideration of approximately HK\$1,847,000.

The fair value of assets acquired and liabilities assumed was as follows:

	19 April 2001 HK\$'000
Property, plant and equipment	684
Inventories	1,039
Prepayments, other receivables and other current assets	181
Cash and cash equivalents	2,103
Advances, other payables and other current liabilities	(386)
Minority interests	(1,774)
	<hr/>
Share of net assets at date of acquisition	1,847
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Acquisition consideration	1,847
Less: Cash and cash equivalents acquired	(2,103)
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Net cash inflow from acquisition	(256)
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Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(e) Consolidation of NB Cheng Du

On 27 March 2001, NB Sanlian increased its share of equity interest in NB Cheng Du, its former associate, from 50 per cent to 75 per cent by injecting additional capital of approximately HK\$1,531,000. NB Cheng Du became one of the consolidated subsidiaries of the Group from 27 March 2001.

The fair value of assets and liabilities at date of capital injection was as follows:

	27 March 2001 HK\$'000
Property, plant and equipment	239
Inventories	748
Prepayments, other receivables and other current assets	581
Cash and cash equivalents	1,203
Advances, other payables and other current liabilities	(269)
Minority interests	(662)
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Share of net assets after capital injection	1,840
Less: share of net assets before capital injection	(309)
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Net assets acquired	1,531
Less: Cash and cash equivalents acquired	(1,203)
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Net cash outflow from consolidation of NB Cheng Du	328
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Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS (continued)

(f) Disposal of a subsidiary

NB Taiwan disposed of its investment in Natural Beauty Development Co., Ltd. ("NB Development") on 20 December 2000. The carrying amount of its assets and liabilities at date of disposal was as follows:

	20 December 2000 HK\$'000
Property, plant and equipment	41
Deferred tax assets	454
Inventories	6,534
Trade receivables	195
Prepayments, other receivables and other current assets	129
Short-term investments	5,857
Cash and cash equivalents	16,203
Advances, other payables and other current liabilities	(6,891)
Trade payables	(15)
Minority interest	(11,028)
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Share of net assets at date of disposal	11,479
Less: loss on disposal	(100)
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Proceeds from disposal	11,379
Less: cash and cash equivalents disposed	(16,203)
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Net cash outflow from disposal	<u>(4,824)</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

27. RELATED PARTY TRANSACTIONS

Parties are considered to be related if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence.

Apart from transactions disclosed in Note 15 and Note 25, the Group had the following material transactions with related parties in the usual course of business. In the opinion of the directors of the Company, these related party transactions were carried out on normal commercial terms and continue after the listing of the Company's shares on the Stock Exchange.

	2001	2000
	HK\$'000	HK\$'000
Sales of finished goods	—	1,526
Rental income	364	130
Rental expense	194	205

In addition to the above transactions, the Group also had the following material transactions with related parties during the year ended 31 December 2001:

- (a) Under a licensing agreement, a director of the Company granted to NB Taiwan the license to use a skin test software from 1 January 1997 to 31 December 2011 for a nominal consideration of NT\$1.
- (b) On 5 October 2001, NB Taiwan entered into two separate licensing agreements with two directors of the Company. Under the agreements, the directors agreed to license a number of trademarks to NB Taiwan, on an exclusive basis, for a nominal consideration of NT\$1 respectively. The licensing agreements will be effective till the expiry of the registration of the respective trademarks.

Included in the amounts due from related parties was an interest free advance to a related party, amounting to HK\$24,778,063 as of 31 December 2000. The amount was subsequently settled in 2001.

As of 31 December 2000, included in the amounts due to related parties were interest free loans from a related party amounting to HK\$13,891,935 which have been fully repaid in 2001.

Other amounts due from and due to related parties as of 31 December 2001 mainly arose from above transactions and costs and expenses paid by the Group and related parties on behalf of each other. These amounts were fully settled subsequent to 31 December 2001.

Amounts due from and due to related parties were unsecured, interest-free and had no fixed repayment dates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

28. COMMITMENTS

(a) Capital commitments

As of 31 December 2001, the Group had capital commitments of approximately HK\$876,000.

(b) Operating lease commitments

As of 31 December 2001, the total future minimum lease payments payable under non-cancelable operating leases of the Group are as follows:

	2001 HK\$'000
Rental to be paid	
- Within 1 year	22,587
- After 1 year but within 5 years	51,490
- After 5 years	27,640
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	101,717
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(c) Other commitments

As of 31 December 2001, the Group had advertising commitments of approximately HK\$6,885,000.

29. SHARE OPTION SCHEME

The Company adopted a share option scheme under which the directors may, at their absolute discretion, invite any executive and/or employee of the Company and/or its subsidiaries to take up options to subscribe for shares. The exercise price is determined by the directors and will at least be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which shall be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

As of 31 December 2001, no share options were granted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2001

30. SUBSEQUENT EVENTS

Except for the subsequent events disclosed in Note 25 and Note 27, the following significant transactions took place subsequent to 31 December 2001:

- (a) The companies now comprising the Group underwent the Reorganization to rationalize the group structure in preparation for the listing of the shares of the Company on the Stock Exchange.
- (b) The shares of the Company were listed on the Stock Exchange on 28 March 2002.
- (c) Pursuant to a resolution of board of directors on 25 April 2002, the board of directors of the Company proposed to distribute a cash dividend of HK\$0.01148 per share amounting to HK\$22,968,000 for the year ended 31 December 2001, which is subject to the approval by shareholders at the forthcoming annual general meeting.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 25 April 2002.