



**NB. 自然美**

**Natural Beauty Bio-Technology Limited**  
**自然美生物科技有限公司**

**2002 Interim Report**

## **2002 INTERIM RESULTS HIGHLIGHTS**

- The Group recorded a turnover of approximately HK\$141,355,000 for the six months ended 30th June 2002, representing an increase of 39% over corresponding period in 2001.
- The net profit for the six months ended 30th June 2002 was approximately HK\$29,077,000, a 86% improvement from the prior corresponding period.
- 500,000,000 new shares of the Company of nominal value of HK\$0.10 each at HK\$0.55 per share were successfully issued and listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Directors of the Company is pleased to announce their first unaudited interim results, including the condensed consolidated income statement, condensed consolidated statement of recognised gains and condensed consolidated cash flow statement of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2002 (the “Current Period”) and the condensed consolidated balance sheet of the Group as at 30th June 2002, together with the comparative figures for the corresponding period and relevant date in 2001, as follows:

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(With comparatives for the six months ended 30th June 2001)

(Expressed in thousands of Hong Kong dollars (HK\$'000))

	Note	For the six months ended 30th June	
		2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
Turnover	4	141,355	101,435
Cost of sales		<u>(32,115)</u>	<u>(31,433)</u>
Gross profit	5	109,240	70,002
Other operating income, net		1,391	378
Distribution costs		(46,164)	(36,227)
Administrative expenses		<u>(26,475)</u>	<u>(17,802)</u>
Profit from operating activities		37,992	16,351
Finance income, net		206	578
Income from short-term investments		1,120	1,048
Share of profit of an associate		–	73
Others, net		<u>(480)</u>	<u>1,917</u>
Profit before tax	6	38,838	19,967
Income tax expense	7	<u>(9,111)</u>	<u>(5,607)</u>
Profit after tax		29,727	14,360
Minority interests		<u>(650)</u>	<u>1,303</u>
Net profit for the period		<u>29,077</u>	<u>15,663</u>
Dividends	8	<u>22,960</u>	<u>39,678</u>
Earnings per share	9		
– Basic		0.017	0.010
– Diluted		<u>Not applicable</u>	<u>Not applicable</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS OF 30TH JUNE 2002

(With comparatives as of 31st December 2001)

(Expressed in thousands of Hong Kong dollars (HK\$'000))

		As of <b>30th June</b> <b>2002</b> (unaudited) <i>HK\$'000</i>	As of <b>31st December</b> <b>2001</b> (audited) <i>HK\$'000</i>
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	248,591	236,736
Investment properties	<i>10</i>	147,744	140,924
Other long-term investments	<i>10</i>	4,661	4,446
Deferred tax assets		1,225	1,020
Deferred expenditures	<i>10</i>	4,553	4,553
Other long-term assets	<i>10</i>	1,657	908
		<hr/>	<hr/>
		408,431	388,587
<b>Current assets</b>			
Inventories		47,862	52,674
Trade receivables	<i>11</i>	29,422	27,416
Amounts due from related parties	<i>16</i>	92	197
Prepayments, other receivables and other current assets		50,913	36,755
Short-term investments		76,159	65,750
Cash and cash equivalents		250,812	76,110
		<hr/>	<hr/>
		455,260	258,902
		<hr/>	<hr/>
<b>Total assets</b>		<b>863,691</b>	<b>647,489</b>

**CONDENSED CONSOLIDATED BALANCE SHEET** *(Continued)*  
*AS OF 30TH JUNE 2002*  
*(With comparatives as of 31st December 2001)*  
*(Expressed in thousands of Hong Kong dollars (HK\$'000))*

		<b>As of 30th June 2002</b> (unaudited) <i>HK\$'000</i>	<b>As of 31st December 2001</b> (audited) <i>HK\$'000</i>
	<i>Note</i>		
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	<i>14</i>	200,000	150,000
Reserves	<i>15</i>	522,013	304,343
		<hr/> 722,013	<hr/> 454,343
<b>Minority interests</b>		<hr/> 28,749	<hr/> 28,269
<b>Non-current liabilities</b>			
Retirement benefit obligation	<i>13(b)</i>	<hr/> 7,530	<hr/> 6,776
<b>Current liabilities</b>			
Amounts due to related parties	<i>16</i>	1,900	7,209
Advances, other payables and other current liabilities		49,344	49,183
Dividend payable		22,960	56,084
Taxes payable		15,425	25,210
Trade payables	<i>12</i>	15,770	18,303
Short-term bank borrowings		<hr/> –	<hr/> 2,112
		<hr/> 105,399	<hr/> 158,101
<b>Total equity and liabilities</b>		<hr/> <b>863,691</b>	<hr/> <b>647,489</b>

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS**  
**FOR THE SIX MONTHS ENDED 30TH JUNE 2002**  
*(Expressed in thousands of Hong Kong dollars (HK\$'000))*

	<b>For the six months ended 30th June</b>	
	<b>2002</b> (unaudited) <i>HK\$'000</i>	<b>2001</b> (unaudited) <i>HK\$'000</i>
<i>Note</i>		
Deficit on revaluation of investment properties	–	(13,869)
Currency realignment	14,201	(14,737)
Net losses not recognized in the income statement	14,201	(28,606)
Net profit for the period	29,077	15,663
Total recognized gains	<u>43,278</u>	<u>(12,943)</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(With comparatives for the six months ended 30th June 2001)

(Expressed in thousands of Hong Kong dollars (HK\$'000))

		For the six months ended 30th June	
		2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
	Note		
<b>Net cash inflow from operating activities</b>		32,917	23,327
Interest paid		(696)	(381)
Interest received		902	959
Income taxes paid		(24,305)	(11,483)
Net cash inflow before investing activities		<u>8,818</u>	<u>12,422</u>
<b>Investing activities</b>			
Acquisition of property, plant and equipment	10	(17,532)	(32,246)
Proceeds from disposals of property, plant and equipment	10	876	399
Acquisition of subsidiaries		–	764
Consolidation of a subsidiary		–	(328)
Net increase in short-term investments		(10,409)	(12,327)
Net realized gain from short-term investments		1,120	1,048
Increase in other long-term assets	10	(807)	(237)
Net cash outflow from investing activities		<u>(26,752)</u>	<u>(42,927)</u>
<b>Financing activities</b>			
Proceeds from issuance of share capital	14,15	247,352	–
Net (decrease) increase in short-term bank borrowings, net of repayments		(2,112)	18,725
Net repayment of loans from a related party		–	(11,616)
Capital contribution from minority shareholders		–	19,691
Dividends paid to minority shareholders		–	(16)
Dividends paid		(56,084)	(39,678)
Net cash inflow (outflow) from financing activities		<u>189,156</u>	<u>(12,894)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>3,480</u>	<u>(4,776)</u>
Net increase (decrease) in cash and cash equivalents		174,702	(48,175)
Cash and cash equivalents, beginning of period		<u>76,110</u>	<u>90,568</u>
Cash and cash equivalents, end of period		<u>250,812</u>	<u>42,393</u>

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF 30TH JUNE 2002**

*(With comparatives for the six months ended 30th June 2001 and as of 31st December 2001)*

*(Expressed in thousands of Hong Kong dollars (HK\$'000) unless otherwise stated)*

### **1. Accounting Policies and Basis of Preparation**

The accompanying unaudited condensed interim consolidated financial statements are prepared in accordance with Statements of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong and Appendix 16 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The principal accounting policies adopted in preparing the interim financial statements of the Group are the same as those adopted in the preparation of the annual financial statements as of and for the year ended 31st December 2001.

Cost that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

These interim financial statements should be read in conjunction with the 2001 annual financial statements.

### **2. Principles and Basis of Consolidation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Natural Beauty Bio-Technology Limited (the “Company”) and its subsidiaries (hereinafter together with the Company referred to as the “Group”), which have been regarded as a continuing group resulting from a group reorganisation (the “Reorganisation”, as described in the paragraph headed “Group reorganization” in the appendix VI of the prospectus of the Company dated 19th March 2002).

All significant intercompany balances and transactions, including intercompany profits and losses and resulting unrealised profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

A subsidiary is an enterprise which the Company 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 consolidated balance sheet and consolidated income statement, respectively.



Details of the Group's subsidiaries as of 30th June 2002 were as follows:

Name	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 23rd 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") *, @	PRC 12th 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") *	PRC 10th 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
Qingdao Natural Beauty Ornaments Co., Ltd. ("NB Qingdao") *	PRC 7th 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") *	PRC 15th 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

<b>Name</b>	<b>Place and date of incorporation or establishment</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Issued and fully paid capital</b>	<b>Registered share capital</b>	<b>Principal activities</b>
Cheng Du Natural Beauty Cosmetics Co., Ltd. (“NB Cheng Du”) *	PRC 4th 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 6th 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 18th 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 18th 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 21st 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 27th December 2000	45.9%	RMB2,500,000	RMB2,500,000	Sales of skin care and beauty products and instrument

<b>Name</b>	<b>Place and date of incorporation or establishment</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Issued and fully paid capital</b>	<b>Registered share capital</b>	<b>Principal activities</b>
Jiangxi Natural Beauty Sanlian Cosmetics Co., Ltd. *	PRC 17th 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
Tianjin Natural Beauty Cosmetics Co., Ltd. *	PRC 6th 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 14th 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 23rd 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

<b>Name</b>	<b>Place and date of incorporation or establishment</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Issued and fully paid capital</b>	<b>Registered share capital</b>	<b>Principal activities</b>
Kun Shan Natural Beauty Sanlian Cosmetics Co., Ltd. *	PRC 6th 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 11th 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 17th 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 19th 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

<b>Name</b>	<b>Place and date of incorporation or establishment</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Issued and fully paid capital</b>	<b>Registered share capital</b>	<b>Principal activities</b>
Chang Chun Natural Beauty Cosmetics Co., Ltd. *	PRC 24th 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
Mudanjiang Natural Beauty Cosmetics Co., Ltd. *	PRC 1st 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 7th 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 13th 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 17th 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

Name	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
Su Zhou Natural Beauty Cosmetics Co., Ltd. *	PRC 20th 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 3rd 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 16th 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") *	Taiwan 25th 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")*	Taiwan 30th December 1991	99.759%	NT\$30,000,000	NT\$30,000,000	Dormant
Da Shun Development Co., Ltd.*	Taiwan 24th December 1997	99.94%	NT\$90,000,000	NT\$90,000,000	Investment holding
Jiun Yuh Investment Co., Ltd. ("Jiun Yuh") *	Taiwan 29th December 1997	99.976%	NT\$174,681,140	NT\$174,681,140	Investment holding
Huei Yao, Investment Co., Ltd. *	Taiwan 29th December 1997	99.97%	NT\$234,681,140	NT\$234,681,140	Investment holding

Name	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
Wan Fang Investment Co., Ltd. *	Taiwan 31st December 1997	99.97%	NT\$242,681,140	NT\$242,681,140	Investment holding
Belem Holdings Sdn. Bhd. ("Belem Holdings")	Malaysia 19th 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") 5th January 2000	100%	US\$52,000	US\$100,000	Investment holding
Great Glamour Co., Ltd. ("Great Glamour")	BVI 22nd January 2001	100%	US\$50,000	US\$50,000	Investment holding
Natural Beauty Bio-Technology (Hong Kong) Co., Ltd. ("NB Hong Kong") *	Hong Kong 16th 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.

@ On 20th 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 31st May 2001, after deducting a fixed return of RMB200,000 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.

### 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:

	For the six months ended 30th June 2002				For the six months ended 30th June 2001			
	PRC unaudited HK\$'000	Taiwan unaudited HK\$'000	Hong Kong		PRC unaudited HK\$'000	Taiwan unaudited HK\$'000	Hong Kong	
			unaudited HK\$'000	Total unaudited HK\$'000			unaudited HK\$'000	Total unaudited HK\$'000
<b>REVENUE</b>	<b>88,709</b>	<b>51,980</b>	<b>666</b>	<b>141,355</b>	<b>45,851</b>	<b>55,584</b>	<b>-</b>	<b>101,435</b>
<b>RESULTS</b>								
Operating profit	32,507	10,511	(5,026)	37,992	(151)	16,502	-	16,351
Finance (expense) income, net	(510)	716	-	206	(166)	744	-	578
Investment income	-	1,120	-	1,120	-	1,048	-	1,048
Share of profit of an associate	-	-	-	-	73	-	-	73
Others	(573)	93	-	(480)	1,089	828	-	1,917
Income taxes	(5,831)	(3,280)	-	(9,111)	(73)	(5,534)	-	(5,607)
Minority interests	(647)	(3)	-	(650)	1,308	(5)	-	1,303
Net profit	24,946	9,157	(5,026)	29,077	2,080	13,583	-	15,663

#### (b) Business segment

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

	For the six months ended 30th June	
	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
Revenue	859	1,666
Net profit	564	797
Segment assets	147,744	147,744



#### 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:

	For the six months ended 30th June	
	2002	2001
	(unaudited) HK\$'000	(unaudited) HK\$'000
Skin care products	94,815	62,107
Beauty products	2,530	2,163
Aromatherapeutic products	7,861	7,046
Skin treatments, beauty and Spa services	21,018	8,042
Beauty training	1,227	1,242
Rental income	859	1,666
Others	13,045	19,169
	<hr/>	<hr/>
	141,355	101,435
	<hr/>	<hr/>

#### 5. Gross Profit

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

	For the six months ended 30th June	
	2002	2001
	(unaudited) HK\$'000	(unaudited) HK\$'000
Skin care products	86,027	50,282
Beauty products	2,289	1,436
Aromatherapeutic products	6,550	4,451
Skin treatments, beauty and Spa services	3,793	1,660
Beauty training	48	448
Rental income	564	797
Others	9,969	10,928
	<hr/>	<hr/>
	109,240	70,002
	<hr/>	<hr/>

## 6. Profit before Tax

Profit before tax in the condensed consolidated income statement was determined after charging the following items:

	For the six months ended 30th June	
	2002 (unaudited) HK\$ '000	2001 (unaudited) HK\$ '000
Crediting:		
Interest income on bank deposits	902	959
Realized gain on disposal of short-term investments	1,120	1,048
Reversal of provision for write-down of inventory	–	458
Reversal of provision for doubtful debts	–	250
Gain on disposals of property, plant and equipment	7	–
	<hr/>	<hr/>
Charging:		
Staff costs, excluding directors' emoluments		
– Salaries and wages	16,280	13,494
– Pension costs ( <i>Note 13</i> )		
– PRC	1,129	677
– Taiwan	552	538
Depreciation of property, plant and equipment	8,174	5,395
Provision for write-down of inventory	192	–
Provision for doubtful debts	102	–
Interest expense on bank borrowings	696	381
Operating lease expense on land and buildings	9,248	5,253
Research and development costs	269	741
Amortization of other long-term assets	101	84
	<hr/>	<hr/>

## 7. Income Tax Expense

(a) Taxation represents:

	<b>For the six months ended 30th June</b>	
	<b>2002</b>	<b>2001</b>
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax ( <i>Note (i)</i> )	–	–
– PRC income tax ( <i>Note (ii)</i> )	9,602	6,393
– Taiwan income tax ( <i>Note (iii)</i> )	3,392	5,217
	<u>12,994</u>	<u>11,610</u>
Deferred taxation		
– The Group's companies incorporated in Taiwan ("Taiwan Companies")	(112)	317
Financial refunds		
– The PRC Companies ( <i>Note (ii)</i> )	(3,771)	(6,320)
	<u>9,111</u>	<u>5,607</u>

- (i) No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong for the six months ended 30th June 2002.
- (ii) The PRC income tax for the six months ended 30th June 2002 represents enterprise income tax ("EIT") on the taxable income reported in the statutory accounts of the PRC Companies.
- (iii) The Taiwan income tax for the six months ended 30th June 2002 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.

## 8. Dividends

As of 30th June 2002, the shareholder's meeting approved the dividend appropriation for 2001 of approximately HK\$22,960,000 (HK\$0.01148 per share, divided by 2,000,000,000 shares) (corresponding period of 2001: HK\$39,678,000, (HK\$0.02645 per share, divided by 1,500,000,000 deemed shares)), which has been paid-off subsequent to 30th June 2002.

Subsequent to 30th June 2002, the directors recommended interim dividend of approximately HK\$15,000,000 (HK\$0.0075 per share, divided by 2,000,000,000 shares) for the six months ended 30th June 2002.

## 9. Earnings per Share

The calculation of basic earnings per share was based on the unaudited consolidated net profit of approximately HK\$29,077,000 for the six months ended 30 June 2002 (corresponding period of 2001: approximately HK\$15,663,000) divided by the weighted average number of approximately 1,751,000,000 ordinary shares (corresponding period of 2001: pro forma number of 1,500,000,000 deemed ordinary shares) in issue during the period.

The diluted earnings per share was not calculated, because no potential shares existed.

## 10. Capital Expenditure

	For the six months ended 30th June, 2002					Total HK\$'000
	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Other long-term investments HK\$'000	Deferred expenditures HK\$'000	Other long-term assets HK\$'000	
Opening net book amount (audited)	236,736	140,924	4,446	4,553	908	387,567
Addition	17,532	-	-	-	807	18,339
Disposal	(876)	-	-	-	-	(876)
Depreciation/ amortisation charge	(8,174)	-	-	-	(101)	(8,275)
Currency realignment	3,373	6,820	215	-	43	10,451
Closing net book amount (unaudited)	<u>248,591</u>	<u>147,744</u>	<u>4,661</u>	<u>4,553</u>	<u>1,657</u>	<u>407,206</u>

## 11. Trade Receivables

	<b>As of 30th June 2002</b> (unaudited) <i>HK\$'000</i>	<b>As of 31st December 2001</b> (audited) <i>HK\$'000</i>
Accounts receivable	28,644	24,595
Notes receivable	1,233	3,174
	<hr/>	<hr/>
	29,877	27,769
<i>Less: Provision for bad and doubtful debts</i>	<i>(455)</i>	<i>(353)</i>
	<hr/>	<hr/>
	<b>29,422</b>	<b>27,416</b>
	<hr/>	<hr/>

Trade receivables generated from credit sales with general credit terms of one to two months.

Ageing analysis of accounts receivable was as follows:

	<b>As of 30th June 2002</b> (unaudited) <i>HK\$'000</i>	<b>As of 31st December 2001</b> (audited) <i>HK\$'000</i>
Ageing		
– Within 1 year	29,403	27,405
– 1 to 2 years	110	133
– Over 2 years	364	231
	<hr/>	<hr/>
	<b>29,877</b>	<b>27,769</b>
	<hr/>	<hr/>

## 12. Trade Payables

The Group's trade payables were all with ageing less than one year.

## 13. Pension Cost

### (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 (2001: 14.0-32.0 per cent) of the employee's basic salary, of which 9.0 per cent to 25.5 per cent (2000: 9.0-25.5 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

	<b>For the six months ended 30th June</b>	
	<b>2002</b> (unaudited) <i>HK\$ '000</i>	<b>2001</b> (unaudited) <i>HK\$ '000</i>
Service cost	434	418
Interest cost	164	197
Projected return on plan assets	(36)	(22)
Amortisation of net actuarial gain	(10)	(55)
	<u>552</u>	<u>538</u>

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

	<b>As of 30th June 2002</b> (unaudited) <i>HK\$ '000</i>	<b>As of 31st December 2001</b> (audited) <i>HK\$ '000</i>
Benefit obligation		
– Vested benefit obligation	1,086	976
– Non-vested benefit obligation	5,655	4,990
	<u>6,741</u>	<u>5,966</u>
Accumulated benefit obligation	6,741	5,966
Additional benefits based on future salaries	1,789	1,583
	<u>8,530</u>	<u>7,549</u>
Projected benefit obligation	8,530	7,549
Fair value of plan assets	(2,037)	(1,808)
	<u>6,493</u>	<u>5,741</u>
Fund status	6,493	5,741
Unrecognised net actuarial gain	1,037	1,035
	<u>7,530</u>	<u>6,776</u>
Accrued pension costs	7,530	6,776

(iii) Actuarial assumptions

	<b>For the six months ended 30th June</b>	
	<b>2002</b>	<b>2001</b>
	(unaudited) <i>HK\$ '000</i>	(unaudited) <i>HK\$ '000</i>
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	<u>4.50%</u>	<u>6.00%</u>

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

	<b>For the six months ended 30th June 2002</b>	
	(unaudited) <i>HK\$'000</i>	
Accrued pension costs, beginning (audited)		6,775
Net expense recognised in income statements		552
Contributions		(138)
Currency realignments		<u>341</u>
Accrued pension costs, ending (unaudited)		<u>7,530</u>

#### 14. Share Capital

	<b>As of 30th June 2002</b>	
	<b>Number of shares</b>	<b>Nominal value <i>HK\$</i></b>
<i>Authorised:</i>		
– Ordinary shares of HK\$0.10 each	<u>4,000,000,000</u>	<u>400,000,000</u>
<i>Issued and fully paid:</i>		
– Ordinary shares of HK\$0.10 each	<u>2,000,000,000</u>	<u>200,000,000</u>

The details of share capital occurred since its incorporation:

- (a) Upon incorporation of the Company on 29th June 2001, the authorised share capital was HK\$390,000, divided into 3,900,000 shares, 1 share was allotted and issued to the subscriber for cash at par. On the same date, the subscriber transferred 1 share of the Company to Efficient Market Investments Limited (“Efficient Market”) for cash at par.

- (b) On 11th March 2002, pursuant to the Reorganisation described in Note 2 to the financial statement, the Company allotted and issued:
- (i) 1,118,595 shares, credited as fully paid to Efficient Market at the direction of Dr. Tsai and Su Chien-Cheng (the Efficient Market's ultimate shareholder) in consideration for the transfer of 45,500 shares and 6,500 shares of US\$1.00 each in Ice Crystal, representing the entire issued share capital of Ice Crystal, from Dr. Tsai and Su Chien-Cheng respectively to the Company;
  - (ii) 2,781,403 shares, credited as fully paid to Efficient Market at the direction of Dr. Tsai and Su Chien-Cheng in consideration for the conversion of 123,235,408 issued shares in the capital of Belem held by Efficient Market to Class B shares (refer to the paragraph "Terms of the Class B shares" in appendix VI of the Prospectus);
  - (iii) 1 share, credited as fully paid, to Efficient Market at the direction of Dr. Tsai, Lee Ming-Ta, Su Chien-Cheng and Su Sh-Hsyu in consideration for the transfer of 12,500 shares of US\$1.00 each in Great Glamour, representing the entire issued share capital of Great Glamour, from each of Dr. Tsai, Lee Ming-Ta, Su Chien-Cheng and Su Sh-Hsyu to the Company.
- (c) Pursuant to a written resolution of the sole shareholder of the Company passed on 11th March 2002, the authorized share capital of the Company was increased from HK\$390,000 to HK\$400,000,000 by the creation of an additional 3,996,100,000 Shares and on the same date 1,496,100,000 shares were allotted and issued to Efficient Market.
- (d) On 28th March 2002, 450,000,000 shares were issued under private placement and 50,000,000 shares were issued to public, all at HK\$0.55 each. Total cash consideration from the private placement and the share issuance was HK\$275,000,000 before deduction of related expenses born by the Company.



A summary of the movements in the authorised and issued share capital of the Company is as follow:

	<b>Number of shares authorised</b>	<b>Number of shares issued</b>	<b>Nominal value of share issued <i>HK\$</i></b>
Share capital as of			
31st December 2001 (audited)	3,900,000	1	0.10
Increase in authorised share capital	3,996,100,000	–	–
Share issued as consideration for the acquisition of the equity interests in the other companies comprising the Group	–	1,499,999,999	149,999,999.90
New issues on private placement	–	450,000,000	45,000,000.00
New issues on initial public offering	–	50,000,000	5,000,000.00
	<hr/>	<hr/>	<hr/>
Balances as of 30th June 2002 (unaudited)	<u>4,000,000,000</u>	<u>2,000,000,000</u>	<u>200,000,000.00</u>

As of 30th June 2002, 1,500,000,000 of the Company's shares were held by Efficient Market, a company incorporated in the British Virgin Islands. The directors consider Efficient Market to be the ultimate holding company of the Group.

## 15. Reserves

### Group:

	Capital surplus HK\$'000 <i>Note (a)</i>	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Exchange translation reserve HK\$'000	Total reserves HK\$'000
Balances as of 31st December 2001 (audited)	178,882	-	12,243	28,402	105,612	(20,796)	304,343
Difference between paid-in capital of subsidiaries and par value of 1,500,000,000 deemed shares arising from the reorganisation	(178,882)	178,882	-	-	-	-	-
Premium arising from issuance of shares	-	225,000	-	-	-	-	225,000
Expenditures on issuance of shares	-	(27,648)	-	-	-	-	(27,648)
Net profit for the six months ended 30th June 2002	-	-	-	-	29,077	-	29,077
Dividends ( <i>Note 8</i> )	-	-	-	-	(22,960)	-	(22,960)
Deficit on revaluation of investment properties	-	-	-	-	-	-	-
Currency realignment	-	-	-	-	-	14,201	14,201
Balances as of 30th June 2002 (unaudited)	-	376,234	12,243	28,402	111,729	(6,595)	522,013

- (a) Capital surplus of the Group as of 30th June 2002, represents the difference between capital injected to subsidiaries of the Company and HK\$150,000,000 recorded as deemed share capital, as if the Reorganisation had been in place as of that date.
- (b) 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.

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

## 16. 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.

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.

	<b>For the six months ended 30th June</b>	
	<b>2002</b>	<b>2001</b>
	(unaudited)	(unaudited)
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Rental income	785	264
Rental expense	98	98
	<u>          </u>	<u>          </u>

In addition to the above transactions, the Group also had the following material transactions with related parties for the six months ended 30th June 2002:

- (a) Under a licensing agreement, a director of the Company granted to NB Taiwan the license to use a skin test software from 1st January 1997 to 31st December 2011 for a nominal consideration of NT\$1.
- (b) On 5th 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.

Amounts due from and due to related parties as of 30th June 2002 mainly arose from above transactions and costs and expenses paid by the Group and related parties on behalf of each other.

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

## 17. Commitments

### (a) Capital commitments

As of 30th June 2002, the Group had capital commitments of approximately HK\$274,000.

### (b) Operating lease commitments

As of 30th June 2002, the total future minimum lease payments payable under operating leases of the Group are as follows:

	<b>As of 30th June 2002 (unaudited) HK\$'000</b>
Rental to be paid	
– Within 1 year	10,250
– After 1 year but within 5 years	44,061
– After 5 years	6,261
	<hr/>
	<b>60,572</b>

### (a) Other commitments

As of 30th June 2002, the Group had advertising commitments of approximately HK\$5,385,000.

## 18. 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 30th June 2002, no share options were granted.

## **19. Subsequent Events**

Except for the subsequent events disclosed in Note 8, there was no significant subsequent event as of 30th June 2002.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Highlights and Business Review**

During the period under review, the Group's net profit grew by 86% to approximately HK\$29,077,000 (2001: HK\$15,663,000). The Group's basic earnings per share increased by 70% to approximately HK\$0.017 (2001: HK\$0.010). The basis of calculation for the earnings per share is detailed in note 9 to the condensed consolidated financial statements.

Despite the general economic downturn worldwide and in particular the retail market was looking decidedly grim in the Current Period, the Group was able to achieve both turnover and profit growth of it, as the Group has solid foundation positioned in the Greater China market.

Contributing to the performance of the Current Period was the Group's management continual commitment to maximise profits through effective marketing techniques, restructuring of its distribution network and continual introduction of innovative products and high profit margin revenues.

Total sales for the Current Period increased by 39% to approximately HK\$141,355,000 (2001: HK\$101,435,000) within which sales in China contributed approximately 63% of the turnover. It was obvious that the Group's strategy for expansion and repositioning in the China market has succeeded. In prior year, in order to capitalise on the opportunity and for its long term business development in the China market, the Group carried out a restructuring of its distribution channels by establishing and acquiring 25 subsidiaries in major cities of China. These PRC subsidiaries serve as the regional vehicles of the Group to manage their self-owned and franchised beauty centers. It has proven that the restructuring is able to strengthen the distribution network and enhance the sales management of the Group in the China market. Most importantly, it caters to the fast economic growth in the PRC after accession to the World Trade Organisation. The sales in China increased by approximately two times from approximately HK\$45,851,000 for the six months ended 30th June 2001 (the "Prior Corresponding Period") to HK\$88,709,000 in the Current Period. In addition, the net profit margin for the PRC segment increased from approximately 5% in the Prior Corresponding Period to approximately 28% in the Current Period due to above mentioned reasons.

In Taiwan, the turnover and net profit for the Current Period were decreased slightly compared with the Prior Corresponding Period. The turnover and net profit in the Current Period were approximately HK\$51,980,000 (2001: HK\$55,584,000) and HK\$9,157,000 (2001: HK\$13,583,000) respectively. In the Current Period, the Group devoted tremendous efforts in new products development in order to adapt the ever-changing demand of the market. Furthermore, the Group is always emphasizes on product research, in order to maintain the competitive edge and the leading market position in Taiwan. The Group has strong and experienced international research and development team in Taiwan, they take into account the feedback from customers and keep abreast of the development and demand of the market. The research and development team develops new, advanced and high quality products for the Group. In the Current Period, the Group has developed over 70 new bio-technological skin care and beauty nutrition products, which included over 10 items of beauty nutrition products, launched and to be launched to the market. In the Current Period, the persistent economic downturn has affected the Group's revenue and profit in certain extent. In general, the retail market in Taiwan looked grim after the slowdown in global economy in the short run. However, through the experience of the management in the market in the region, the edge of the quality of the products together with the continual market oriented product development and the brand name of Natural Beauty has been well recognised among the customers over twenty years, the Group is confident that more revenues and profits will be reflected in the second half year of 2002.

For Hong Kong, the development of the market in the territory is still in the initial stage. In the Current Period, there were three showing stores, including A-class Natural Beauty Spa and B-class salon Spa retail outlet, opened in the region. Many customers were satisfied with the products and services. Most of the customers were deeply impressed by the quality of the products, particular the products with regard to compatibility to features of Chinese women. In addition, most of the customers find that our Spa and beauty services are professional and exceptional in the market in the region. This encourage feedback proves that the Group are on the right track and able to grasp the market needs and opportunities. In the Current Period, as many setup expenditures have to be incurred in the region, no profit has been generated yet. However, it is confident that encouraging results will be generated when more beauty centers are opened in the territory and their distribution network and operating efficiency are established in the short run.

In the Current Period, skin care products was the major contributor to the revenue and margin of the Group for the Current Period, its revenue amounted to approximately HK\$94,815,000 (2001: HK\$62,107,000), representing approximately 67% (2001: 61%) of total turnover. The sales volumes increased due to the popular demand and the well established brand image of "NB<sup>®</sup>" among various oriental countries and, as a result of the continual innovative products have been launched to the market. Most of the consumers in the Greater China recognise that the Group's skin care products were most suitable for oriental women. The gross profit margin for the skin care products

was improved from approximately 81% in the Prior Corresponding Period to 91% in the Current Period. The increase in the gross profit margin for the skin care products was mainly attributable to the improved production logistic, enhanced inventory control system, continual research and development of the products and restructured distribution channels in the PRC.

The service revenue was also increased substantially in the Current Period. Particularly, the income from skin treatments, beauty and Spa services increased by approximately 161% to approximately HK\$21,018,000 (2001: HK\$8,042,000), equivalent to approximately 15% (2001: 8%) of total turnover. As a matter of fact, market demand for skin treatment, beauty and Spa services in China are growing at a significant rate, as the average family disposable income in the region has been continuously rising in recent few years.

Distribution costs increased in proportion to the increase in sales volume and as a result of the restructuring of the distribution channels concerning 25 acquired subsidiaries in the PRC in the whole Current Period. Administrative expenses increased also due to acquisition of the subsidiaries in the PRC in the whole Current Period and the set up cost incurred in Hong Kong at the beginning stage. The Group will continue to carry out cost control measures to increase the operating efficiency and thereby increase the Group's competitiveness in the market.

### Financial Ratios Review

	At 30th June 2002	At 30th June 2001
Current ratio	4.32	1.64
Quick ratio	3.87	1.3
Days inventory turnover	268 days	302 days
Days debtors turnover	37 days	49 days
Gearing ratio	0.87%	1.05%

As at 30th June 2002, the Group's current ratio was 4.32 and the quick ratio was 3.87. The increase in current ratio and quick ratio compared with the balances on 30th June 2001 were attributable to gross proceed of approximately HK\$0.27 billion (approximately net proceed of HK\$0.25 billion after deduction of related issuance expenses) was raised from the initial public offer and placing of the shares of the Company on the Stock Exchange in March 2002.

The Group's inventory turnover was reduced to 268 days (2001: 302 days) as the Group seeks to enhance the inventory level.

The Group's debtors turnover days remained relatively stable at 37 days (2001: 49 days). The Group normally grants trade credit to its customers with maximum of 2 months, except for sales made to certain credit-worthy customers, as approved from

time to time by senior management of the Group. Over 98% of the Group's trade receivables are within 1 year's ageing.

The Group had non-current liability concerning retirement benefit obligation of approximately HK\$7,530,000 and its total assets amount to approximately HK\$863,691,000 at 30th June 2002. In this regard, the Group's gearing ratio, expressed as a percentage of non-current liabilities over total assets, was 0.87% as of 30th June 2002.

### **Liquidity and Financial Resources**

The Group had total cash and cash equivalent at 30th June 2002 of approximately HK\$251 million (30th June 2001: HK\$76 million). In addition, the Group had short term investments at 30th June 2002 of approximately HK\$76 million (30th June 2001: HK\$66 million) representing the capital guaranteed bond funds mainly related to the listed securities in Taiwan. The net cash inflow from operating activities for the Current Period was approximately HK\$33 million (the Prior Corresponding Period: HK\$23 million). Taking into consideration of the existing financial resources available to the Group, it is anticipated that the Group have sufficient financial resources to meet its ongoing operating and development requirements.

The Group's funding requirements have been financed by its working capital. The short term new Taiwan dollars bank borrowing of HK\$2,112,000 has been fully paid and the relevant director's guarantee has been released. Accordingly, the Group did not have any bank borrowings as at 30th June 2002.

As at 30th June 2002, the Group had outstanding capital commitment of approximately HK\$274,000 in respect of acquisition of property, plant and equipment.

As at 30th June 2002, the Group had no material contingent liabilities.

In view of the capital structure of the Group, please refer to note 14 to the condensed consolidated financial statements for details.

### **Treasury Policy and Exposures to Fluctuation in Exchange Rates**

The Group conducts its core business transactions in mainly Hong Kong, Taiwan and China's denominated currencies. The Group's financial statements are stated in Hong Kong dollars. Accordingly, any significant volatility and depreciation of Renminbi and New Taiwan dollars could adversely affect the Group's business, financial condition and results of operations. The Group will continue to conduct periodic review of its exposure to foreign exchange risk and use derivative financial instruments to hedge against such risk, as considered appropriate in the circumstances. During the period under review, the Group had not used any financial instrument for hedging purposes, as the exchange rate between New Taiwan dollars and Hong Kong dollars had no



adverse fluctuation, together with the minimal fluctuation in the exchange rate between Hong Kong dollars and Renminbi. The Group considered its exposure to adverse exchange rate risk in the Current Period was minimal.

### **Employment, Training, Development and Remuneration Policies**

As at 30th June 2002, the Group has a total of 727 employees of which 512 are based in the PRC, 174 in Taiwan and 41 in Hong Kong. The Group always maintains good working relations with its employees and has committed itself to employee training and development. To promote and maintain the quality and consistency of the services provided in its self-owned and franchised beauty centers, the Group offers continuing professional training courses to the beauticians employed by the Group and its franchisees.

Remuneration packages of the Group are maintained at a competitive level and reviewed on a periodical basis. Bonus and options are awarded to employees according to the assessment of individual performance and industrial practice.

In addition, the Group has adopted a Share Option Scheme on 11th March 2002, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The directors may, at their discretion, invite any employee or directors of the Group and any qualified persons as set out on the Share Option Scheme, to subscribe for shares of the Company. As at 30th June 2002 and up to the date of this report, no options had been granted under the Share Option Scheme.

The Group's subsidiaries in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC and are required to make monthly contributions at 9% to 27% of the relevant PRC employees' salaries to the schemes. The Group's subsidiaries in Taiwan have pension plans for its regular employees, and are required to make monthly contributions at 2% of salaries into an account maintained with the Central Trust of China in the name of a pension fund monitoring committee as required by the relevant Taiwan laws and regulations. The Group has also adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Scheme Ordinance.

### **Prospect Highlights**

The Group will continue to concentrate on its core operations and markets. And, the Group will focus its strategy in sales of skin care products in the Greater China. The directors consider that, given over 30 years of the experience engaging in beauty and skin care related businesses of the management, the well recognised brand name and the extensive distribution channels, the Group is well positioned to capitalise on the expected future growth of the beauty and skin care market in the Greater China

region, especially in the PRC market. The Group is confident to further expand its market share in the Greater China in next few years. As a matter of fact, the Group's products are tailor made for the specific features of Chinese women, this is also the reason for the continued popularity of the products of the Group in the Greater China region. As the Group's planning of enhancing the distribution channels and increasing the number of Natural Beauty beauty centres by expanding the franchise programme have been succeeding step by step, it is believed that the market share of the Group's products will be increased extensively in the Greater China in next few years. In reality, apart from producing tailor made skin care products exceptionally fitting to specific features of Asian women, the Group will continue to introduce more skin care and beauty related products, like beauty nutrition food and beverage, in particular for the health of Asian women, and cater to the needs and requirements of modern Chinese ladies. The enhanced products of the Group will become the indispensable part of the life of the Asian women.

As the Group considers that the present and future look rosy in China, and due to its accession to the World Trade Organisation, it is believed that there is a huge room for the Group's future expansion in the market. In view of the entry to the World Trade Organisation of China, the local government will allow more foreign international competitors to access in this industry in the region, and competition will become more intense. However, the Group is confident with its prospect in the region. Taking into account of the experience of the Group and over 10 years established sales network in the industry and premium product and service qualities and particularly fitting for specific nature of skin type of Chinese women, the Group's image has been well recognised among the consumers in China. The Group will continue to capitalise its managerial and financial resources to established more self-own beauty centres in major cities and provinces, and through acquisition of potential and initially set-up cosmetic and beauty nutrition food businesses, it is able to further expand the Group's revenue in cost efficient and effective manners. Up to the date of this report, the Group has acquired a nutrition food production company. There are well established sales points and many well trained sales representatives of this acquired business. Through further restructuring and improvement, it is expected that the acquired company will bring favourable contribution to the Group in next year.

The Group plans to set up more Natural Beauty Spa in the PRC, covering most major provinces and cities. The Group believes that the Spa is able to provide full range of skin treatment, aroma therapeutic and beauty related services and capture those customers with high consumption power and requirement, in which they afford to utilise full range of the Group's products and hence increase the product sales, and that this business line presents a strong growth potential to the Group. The Group strongly believes that the consumption power of the customers in the region has been increasing significantly, and the customers trend to put more emphasises and importance on health nowadays. In addition, in view of the increasing pace up of the economy and the emphasises on both health and beauty, more Chinese women are

eager to be relaxed in our Natural Beauty Spa after their busy work. In view of that, the Group will continue to establish more Natural Beauty Spa in most major provinces and cities. Besides from providing full range of skin care, aroma therapeutic and beauty services, more enhanced bio-technological products and beauty nutrition foods will be introduced to the market, in order to capture those demand with high consumption power and presents a strong growth potential to the Group's profit. The Group has entered into a memorandum of understanding with a well-known America bio-technology company to establish a strategic collaborations to research and develop innovative bio-genetic beauty products. Through their advanced research on cellular biology and patented biological and bio-genetic technology, the products are tailor made for the body and emphasise on nature of Asian people, stressing on health of whole human body besides from beauty. It is expected that products will be launched to the market in next year through the established network of that company in the United States. It is believed that it presents unlimited opportunities and a new market to the Group.

In particular to the Taiwan market, besides from above mentioned, more innovative and high quality products will be launched to the market. The Group will select outstanding and well developed beauty centers to be upgraded in higher class, such as upgrading the Natural Beauty beauty salon to the Natural Beauty salon Spa as well as expanding the floor area of Natural Beauty beauty salon and enlarging the number of dedicated counter, in order to provide broaden range of products and services and improve the Group's turnover and profit.

For Hong Kong, the Group is planning to extend the number of beauty centers, including self-own and through the franchise programme, in the region which is expected to generate additional revenues and profits, including sales income and franchise fee, for the Group.

As a leading skin care and beauty service provider in the Greater China region, the Group will continue to offer premium quality products and fully integrated services to its customers. The Group will put more emphasises on the product research and development of new, innovative and popular products. For example, forming collaboration with the Harvard University to develop anti-aging and other bio-technology beauty products via bio-genetic technology. The directors and senior management of the Group will continue to closely monitor the trend of the market. It is believed that product and service diversification enables the Group to expand its product and service varieties and manage its business risks effectively. Besides, the increase of product variety and service range can broaden the customer base of the Group, with a view to further enhancing the Groups' competitiveness in similar market segments, and focus on the fast growing middle and high income earners in China in recent few years. For example, in the short run, the Group intends to introduce more women relate products, like health food, underwear, brassiere products, jewellery and women accessories in order to broaden the Group's product lines and revenues.

As mentioned above, and owing to the market demand for skin care, beauty and aromatherapeutic products and skin treatments and Spa services are expected to grow at an increasing rate when the average family disposable income continues to rise in the PRC. In order to capitalize on this opportunity and for its long-term business development, the Group is carrying out a restructuring of its distribution channels by acquiring the interests of the minority shareholders of part of the subsidiaries in China, regaining full control of the subsidiaries in the PRC and enhancing its operational control and financial management. After the acquisitions, it is anticipated that revenues and cost control of the Group can be improved in a great extent. Meanwhile, profit margin of the Group will be further enhanced.

Through the Group's continual disciplined cost management, the Group is capable of putting all the expenses under effective control. This initiative not only contributes to cost reductions but also helps to streamline the Group's overall operations. At the same time, the Group will actively seek for any relevant and suitable investment opportunities that with synergy effect to the Group's existing business in order to generate additional income and maximise returns for our valuable shareholders.

Taking into account the growing demand of the market, the Group has adopted new Oracle Enterprise Resources Planning System ("ERP") before listing of the Company on the Main Board of the Stock Exchange and the Group intends to implement new Partnership Relationship Management System ("PRM") to replace the existing information system, in order to enhance the competitive advantage in the market.

Oracle ERP system is a Globalised enterprise resources planning information system, comprising functional modules like purchasing, manufacturing, inventory control, point of sales, accounting and human resources management system. Through network transmission, the Group can retrieve business information on-time, enhancing the efficiency of the Group's operations, achieving office automation and reducing operational and administrative costs. The Oracle ERP system is now close to the completion stage, on-line implementation is expected on January of next year.

PRM system comprises the modules like store management, client relationship management and on-line computerised skin examination system. Through network transmission, the Group can retrieve the operational information and skin test information from every sales point. It is able to enhance the efficiency of the Group's operations such as production, inventory control and delivery of products and thus optimise the yield of higher profit margin. Having built up the scale business partner/customer database, the Group can utilise those data conducting one-to-one marketing, cross-selling and up-selling, so as to enhance the revenue of the Group. The Group now evaluates the system among different providers, it is anticipated that the system can be implemented in next first half year. The Group will also actively promote the B2C internet market in 2003 in order to increase the income of the Group.

Moreover, the Group will continue to develop and strengthen alliance with the leading international beauty and skin care enterprises to explore potential markets and to enlarge its market share, in order to establish “Natural Beauty” as a genuine international brand and a real global player.

Looking ahead, with the huge potential and market development in the PRC market, together with the sales volume for the skin care and beauty products should be increased due to popular demand of these products in Autumn and Winter seasons in the market, normally about and over two times of the sales volume compared with the first half of the year, the directors and management are confident that the second half of 2002 will provide a period of fruitful harvest for the Company.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 7th October 2002 to 10th October 2002, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the interim dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company’s Hong Kong share registry, Hong Kong Registrars Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on 4th October 2002.

## **DIRECTORS’ INTERESTS IN EQUITY SECURITIES**

As at 30th June 2002, the interests of the directors and the chief executive of the Company in the equity securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the “SDI Ordinance”)) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) were as follows:

### **Interests in the equity securities of the Company:**

Name of director	Number of ordinary shares				Number of options
	Personal interests	Family interests	Corporate interests	Other interests	
Dr. Tsai Yen Yu	-	-	1,500,000,000	-	-
Mr. Su Chien Cheng	-	-	225,000,000	-	-
Ms. Su Sh Hsyu	-	-	225,000,000	-	-
Mr. Lee Ming Ta	-	1,500,000,000	-	-	-

Other than as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY**

The Company has a Share Option Scheme (the "Scheme"), under which it may grant options to employees (including executive directors) of the Company to subscribe for ordinary shares in the Company. Particulars of the Scheme are set out in Appendix VI of the Company's Prospectus dated 19th March 2002.

The Scheme is effective for a period of 10 years commencing from 11th March 2002 (the date on which the Scheme was adopted).

No options under the Scheme had been granted to any persons during the Current Period and up to the date of this report.

## **SUBSTANTIAL SHAREHOLDERS**

The Company became a listed company in Hong Kong on 28th March 2002. The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had a beneficial interest of 10 per cent or more in the issued share capital of the Company as at 30th June 2002:

<b>Name</b>	<i>Note</i>	<b>Number of shares</b>	<b>%</b>
Efficient Market Investments Limited	<i>1</i>	1,500,000,000	75.00%
Knightcote Enterprise Limited	<i>2</i>	1,500,000,000	75.00%
Dr. Tsai Yen Yu	<i>3</i>	1,500,000,000	75.00%
Mr. Su Chien Cheng	<i>4</i>	225,000,000	11.25%
Ms. Su Sh Hsyu	<i>5</i>	225,000,000	11.25%

### *Notes:*

1. Efficient Market Investments Limited is beneficially owned by Knightcote Enterprise Limited.
2. Knightcote Enterprise Limited is beneficially owned by Dr. Tsai as to 70%, Mr. Su Chien Cheng as to 15% and Ms. Su Sh Hsyu as to 15%.
3. These shares are attributable to Dr. Tsai Yen Yu in respect of 70% interest in Knightcote Enterprise Limited.
4. These shares are attributable to Mr. Su Chien Cheng in respect of 15% interest in Knightcote Enterprise Limited.
5. These shares are attributable to Ms. Su Sh Hsyu in respect of 15% interest in Knightcote Enterprise Limited.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as disclosed in note 16 to the condensed consolidated financial statements and the deferred expenditures of approximately HK\$4,553,000 as at 30th June 2002 (its relevant details were set out in the annual report of the Company dated 25th April 2002), no director had a significant beneficial interest, either direct or indirect, in any contracts of significance to the business of the Group to which the Company or any of its holding companies and subsidiaries was a party during the Current Period.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the Current Period and up to the date of this report, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), other than those businesses of which the directors of the Company have been appointed as directors to represent the interests of the Company and/or the Group.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in appendix 14 of the Listing Rules, since the listing of the Company's share on the Stock Exchange on 28th March 2002.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED EQUITY SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed equity securities since the listing of the Company's share on the Stock Exchange on 28th March 2002.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the Current Period.

By Order of the Board  
**Dr. Tsai Yen Yu**  
*Chairman*

Hong Kong, 19th September 2002