

## Notes to the Accounts

For the year ended 31 December 2002

### 1. GROUP INFORMATION

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 reorganisation (the "Reorganisation") 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 Reorganisation are set out in the Company's Prospectus dated 19 March 2002. The shares of the Company have been listed on the Stock Exchange since 28 March 2002.

### 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

#### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and investments in securities are stated at fair value.

The Company and its subsidiaries (collectively referred to as the "Group") resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which consolidated accounts 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 2002 and 2001, or since their respective dates of the incorporation or establishment, whichever is later.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised):	Presentation of accounts
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP34 (revised):	Employee benefits

Adoption of these new policies has no significant impact on the Group's accounts.

## Notes to the Accounts

For the year ended 31 December 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Group accounting

##### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

##### (ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

## Notes to the Accounts

For the year ended 31 December 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Group accounting (continued)

##### (ii) Associated companies (continued)

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

#### (c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

#### (d) Intangibles

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired interests in subsidiaries at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful lives, but not exceeding 5 years.

##### (ii) Patents and trademarks

Expenditure on acquired patents, trademarks and licenses is capitalised and amortised using the straight-line method over their estimated useful lives, but not exceeding 10 years.

##### (iii) Web site development costs

Web site developments costs mainly comprise costs incurred for the development of a web site. The amounts are amortised on a straight-line basis over a period of 5 years from the date the web site is ready for use.

## Notes to the Accounts

For the year ended 31 December 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (d) Intangibles (continued)

##### (iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

#### (e) Property, plant and equipment

##### (i) 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 investment potential, any rental income being negotiated at arm's length.

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

##### (ii) Other property, plant and equipment

Other property, plant and equipment, comprising leasehold improvements, machinery and equipment, furniture and fixtures and land and buildings other than investment properties, are stated at cost less accumulated depreciation and accumulated impairment losses.

## Notes to the Accounts

For the year ended 31 December 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (e) Property, plant and equipment (continued)

##### (iii) Depreciation

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Leasehold land of other properties is depreciated over the period of the lease while other property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal useful life and residual rates are as follows:

Description	Useful life	Residual rates
Land and buildings	40-55 years	0%-10%
Leasehold improvements	The lower of the unexpired period of the lease and the beneficial periods	0%
Machinery and equipment	5-10 years	0%-10%
Motor vehicles	3-5 years	0%-10%
Furniture and fixtures	2-15 years	0%-10%

##### (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction, other properties and other property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of property, plant and equipment other than investment properties and properties under construction is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

## Notes to the Accounts

For the year ended 31 December 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (f) Investments in securities

##### (i) Non-trading securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

##### (ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

#### (g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

## Notes to the Accounts

For the year ended 31 December 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

#### (k) Employee benefits

##### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

##### (ii) Retirement benefit obligations

The contributions relating to defined contribution plans are charged to the profit and loss account in the period to which they relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. The cost of providing retirement benefits is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans each year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised over the average remaining service lives of employees. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

The Group's contributions to defined benefits pension plans are charged to the profit and loss account in the period to which the contributions relate.

#### (l) 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 accounts, 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.

## Notes to the Accounts

For the year ended 31 December 2002

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (m) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Service income is recognized as services are rendered.

Exchange of the Group's products for advertising services is regarded as exchange of dissimilar products that generates other revenue. The Group measures such revenue at the fair value of the goods given up. Gross profits from such barter transactions are recorded as deferred gains and are amortised into the profit and loss account in the same period that relevant advertising credits are utilised.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight-line basis.

#### (n) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as certain corporate payables. Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are determined based on the location of the assets.



## Notes to the Accounts

For the year ended 31 December 2002

**3. TURNOVER, REVENUE AND SEGMENT INFORMATION**

The Group is principally engaged in manufacturing and distribution of skin care, beauty and aroma therapeutic products, skin treatments, beauty and SPA services, and beauty trainings. Revenues recognised during the year are as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Turnover		
Sales of goods	<b>254,810</b>	230,021
Service income	<b>51,468</b>	24,545
	<hr/> <b>306,278</b> <hr/>	<hr/> 254,566 <hr/>
Other revenues		
Net income from barter transactions	<b>14,994</b>	–
Gross rental income from investment properties	<b>2,228</b>	2,860
Gross rental income from other properties	<b>667</b>	331
Entrustment income from a former minority shareholder (Note 14 (d))	<b>1,979</b>	–
Gain on disposal of assets held for resale (Note 13 (c))	<b>5,817</b>	–
Gain on disposal of property, plant and equipment	–	132
Interest income	<b>1,903</b>	1,355
Other income	<b>809</b>	1,681
	<hr/> <b>28,397</b> <hr/>	<hr/> 6,359 <hr/>
Total revenues	<hr/> <b>334,675</b> <hr/>	<hr/> 260,925 <hr/>

## Notes to the Accounts

For the year ended 31 December 2002

**3. TURNOVER, REVENUE AND SEGMENT INFORMATION** (continued)**(i) Geographical segments**

The Group conducts the majority of its business activities in three geographical areas, the PRC, Taiwan and Hong Kong (2001: the PRC and Taiwan). An analysis by geographical segment is as follows:

	2002			Total HK\$'000
	PRC HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	
Turnover	<u>191,697</u>	<u>111,465</u>	<u>3,116</u>	<u>306,278</u>
Segment results	<u>54,808</u>	<u>47,858</u>	<u>(9,516)</u>	93,150
Unallocated costs				<u>(8,090)</u>
Operating profit				85,060
Finance costs	(428)	(49)	-	(477)
Income from trading securities	-	2,445	-	<u>2,445</u>
Profit before taxation				87,028
Taxation				<u>(21,891)</u>
Profit after taxation				65,137
Minority interests				<u>1,335</u>
Profit attributable to shareholders				<u>66,472</u>
Segment assets	413,832	366,966	19,702	800,500
Unallocated assets				<u>60,986</u>
Total assets				<u>861,486</u>
Segment liabilities	50,728	51,239	2,581	104,548
Unallocated liabilities				<u>2,486</u>
Total liabilities				<u>107,034</u>
Capital expenditure	32,749	4,915	6,717	44,381
Depreciation and amortisation	14,347	6,603	821	21,771

## Notes to the Accounts

For the year ended 31 December 2002

**3. TURNOVER, REVENUE AND SEGMENT INFORMATION** (continued)**(i) Geographical segments** (continued)

	2001			Total HK\$'000
	PRC HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	
Turnover	<u>155,256</u>	<u>99,310</u>	<u>–</u>	<u>254,566</u>
Segment results	<u>41,449</u>	<u>38,434</u>	<u>–</u>	79,883
Unallocated costs				<u>–</u>
Operating profit				79,883
Finance costs	(671)	(120)	–	(791)
Income from trading securities	–	3,017	–	3,017
Share of profit of an associated company	73	–	–	73
Profit before taxation				82,182
Taxation				<u>(12,464)</u>
Profit after taxation				69,718
Minority interests				<u>1,325</u>
Profit attributable to shareholders				<u>71,043</u>
Segment assets	318,409	323,617	–	642,026
Unallocated assets				<u>5,463</u>
Total assets				<u>647,489</u>
Segment liabilities	116,869	42,545	–	159,414
Unallocated liabilities				<u>5,463</u>
Total liabilities				<u>164,877</u>
Capital expenditure	65,333	16,960	–	82,293
Depreciation and amortisation	<u>8,677</u>	<u>4,326</u>	<u>–</u>	<u>13,003</u>

## Notes to the Accounts

For the year ended 31 December 2002

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

## (ii) Business segments

		2002			
	Other	Segment	Total	Capital	
Turnover	revenues	result	assets	expenditure	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cosmetics products and beauty services	306,278	26,169	92,511	721,006	44,381
Investment properties business	–	2,228	639	140,480	–
	<u>306,278</u>	<u>28,397</u>	<u>93,150</u>	<u>861,486</u>	<u>44,381</u>
		2001			
Turnover	Other	Segment	Total	Capital	
HK\$'000	revenues	result	assets	expenditure	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cosmetics products and beauty services	254,566	3,499	78,652	506,565	82,293
Investment properties business	–	2,860	1,231	140,924	–
	<u>254,566</u>	<u>6,359</u>	<u>79,883</u>	<u>647,489</u>	<u>82,293</u>

## Notes to the Accounts

For the year ended 31 December 2002

**4. OPERATING PROFIT**

Operating profit is stated after crediting and charging the followings:

	2002 HK\$'000	2001 HK\$'000
<b>Charging</b>		
Depreciation of property, plant and equipment (Note 13)	20,590	12,870
Amortisation of intangible assets (included in administrative expenses) (Note 12)		
– Goodwill	83	37
– Patents and trademarks	110	71
– Development costs	910	–
– Software costs	78	25
Staff costs (Note 10)	48,584	28,667
Write-down of inventories to net realisable value	537	–
Operating leases on land and buildings	21,725	11,661
Outgoings in respect of investment properties	1,589	1,629
Outgoings in respect of other properties	252	236
Loss on disposal of property, plant and equipment	158	–
Auditors' remuneration	1,372	737
Research and development costs	592	1,123
Interest expense on bank borrowings	477	791
Net exchange loss	123	–
	<hr/>	<hr/>
<b>Crediting</b>		
Gain on disposal of assets held for resale (Note 13 (c))	5,817	–
Gain on disposal of property, plant and equipment	–	132
Gains on disposal of trading securities	2,445	3,017
Reversal of write-down of inventories	–	630
Recovery of bad debts previously written-off	333	595
Net exchange gain	–	539
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## Notes to the Accounts

For the year ended 31 December 2002

**5. FINANCE COSTS**

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans	<u>477</u>	<u>791</u>

**6. TAXATION**

Income taxes are provided on the assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

For subsidiaries in Taiwan, in addition to the above income taxes charged on the taxable income, income tax is also charged on the unappropriated profits at a rate of 10% (2001: 10%) in the year when shareholders have resolved that the unappropriated profits shall be retained.

The amount of taxation charged to the consolidated profit and loss account represents:

	2002 HK\$'000	2001 HK\$'000
Current taxation:		
– Hong Kong profits tax	–	–
– PRC income tax	11,705	23,601
– Taiwan income tax	<u>17,013</u>	<u>11,683</u>
	<u>28,718</u>	<u>35,284</u>
Deferred taxation (Note 17)		
– Taiwan Companies	<u>242</u>	<u>354</u>
Financial refunds		
– The PRC Companies	<u>(7,069)</u>	<u>(23,174)</u>
	<u>21,891</u>	<u>12,464</u>

No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong for the year ended 31 December 2002 (2001: Nil).

## Notes to the Accounts

For the year ended 31 December 2002

### 6. TAXATION (continued)

Certain subsidiaries in the PRC have been informed that pursuant to the rules and regulations promulgated by the finance bureau of the provinces where they operate, they would be entitled to financial refunds based on a percentage of the income taxes paid. However, the financial refund policy is subject to review annually and it is uncertain if these subsidiaries will continue to be eligible for such financial refunds in future. These financial refunds are recognised as a deduction of income tax expense on the basis of amounts received, including receipts subsequent to year-end.

### 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$38,667,000 (2001: Nil).

### 8. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Appropriations paid to then shareholders of the Group's subsidiaries prior to the listing of the Company	–	39,678
2001 final, proposed, of HK\$0.01148 per ordinary share	–	22,960
2002 interim, paid, of HK\$0.0075 per ordinary share	<b>15,000</b>	–
2002 final, proposed, of HK\$0.02 per ordinary share	<b>40,000</b>	–
	<hr/>	<hr/>
	<b>55,000</b>	22,960
	<hr/>	<hr/>
	<b>55,000</b>	62,638

The directors proposed a final dividend of HK\$0.015 per share and a special dividend of HK\$0.005 per share. These proposed dividends are not reflected as dividend payables in the current year accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003. Similarly, final dividend declared in 2002 in respect of 2001 of HK\$22,960,000 was reflected as an appropriation of retained earnings in 2002.

## Notes to the Accounts

For the year ended 31 December 2002

### 9. EARNINGS PER SHARE

The calculation of the basic earnings per share for 2002 is based on the Group's profit attributable to shareholders of HK\$66,472,000 divided by the weighted average number of approximately 1,882,192,000 ordinary shares in issue during the year.

The calculation of the basic earnings per share on a pro forma weighted average basis for 2001 is based on the consolidated net profit attributable to shareholders of HK\$71,043,000 and on the pro forma weighted average number of 1,500,000,000 shares in issue and issuable, comprising 1 share in issue as of 31 December 2001 and 1,499,999,999 shares to be issued on 11 March 2002.

No diluted earnings per share is presented, as the Company has no dilutive potential shares.

### 10. STAFF COSTS

	2002 HK\$'000	2001 HK\$'000
Salaries and wages (excluding directors' remuneration)	43,274	25,732
Retirement benefit costs		
– Defined contribution plans	4,208	1,887
– Defined benefit plans	1,102	1,048
	<u>48,584</u>	<u>28,667</u>



## Notes to the Accounts

For the year ended 31 December 2002

**11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS****(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	–	–
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	2,873	523
	<u>2,873</u>	<u>523</u>

Directors' fees disclosed above include HK\$32,000 (2001: Nil) paid to independent non-executive directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
HK\$nil – HK\$1,000,000	6	4
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	–	–

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2001: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2001: three) individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	349	675

## Notes to the Accounts

For the year ended 31 December 2002

**11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (continued)**(b) Five highest paid individuals** (continued)

The emoluments fell within the following band:

Emolument bands	Number of individuals	
	2002	2001
HK\$nil – HK\$1,000,000	1	3
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	–	–

**12. INTANGIBLE ASSETS**

	Goodwill	Patents and trademarks	Web site development costs	Software costs	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note 14(c)				
Opening net book amount	104	595	4,553	209	5,461
Additions	11,179	596	–	410	12,185
Amortisation charge	(83)	(110)	(910)	(78)	(1,181)
Currency realignment	–	3	(2)	–	1
Closing net book amount	<u>11,200</u>	<u>1,084</u>	<u>3,641</u>	<u>541</u>	<u>16,466</u>
At 31 December 2002					
Cost	11,360	1,266	4,551	644	17,821
Accumulated amortisation	<u>(160)</u>	<u>(182)</u>	<u>(910)</u>	<u>(103)</u>	<u>(1,355)</u>
Net book amount	<u>11,200</u>	<u>1,084</u>	<u>3,641</u>	<u>541</u>	<u>16,466</u>
At 31 December 2001					
Cost	178	667	4,553	234	5,632
Accumulated amortisation	<u>(74)</u>	<u>(72)</u>	<u>–</u>	<u>(25)</u>	<u>(171)</u>
Net book amount	<u>104</u>	<u>595</u>	<u>4,553</u>	<u>209</u>	<u>5,461</u>

Web site development costs represent costs incurred for the development of the "Natural Beauty" web site, which is dedicated to the Group's e-commerce activities. This project was partly undertaken by a related company, in which a director of the Company has a significant influence, for a consideration of approximately HK\$1.6 million.

## Notes to the Accounts

For the year ended 31 December 2002

## 13. PROPERTY, PLANT AND EQUIPMENT

	Properties							Total HK\$'000
	Freehold investment properties HK\$'000 (Note (a))	under con- struction HK\$'000	Land and buildings HK\$'000 (Note (b))	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	
<b>Cost or valuation:</b>								
At 1 January 2002	140,924	32,228	147,346	33,720	6,553	4,715	46,597	412,083
Currency Realignment	1,602	(5)	482	179	22	10	157	2,447
Additions	-	870	401	14,344	4,440	597	11,544	32,196
Deficit on revaluation	(2,046)	-	-	-	-	-	-	(2,046)
Reclassification	-	(7,485)	-	6,960	-	-	525	-
Disposals	-	-	-	(1,807)	(40)	(47)	(2,537)	(4,431)
Transfer to assets held for resale (Note (c))	-	(24,095)	-	-	-	-	-	(24,095)
At 31 December 2002	140,480	1,513	148,229	53,396	10,975	5,275	56,286	416,154
<b>Accumulated depreciation:</b>								
At 1 January 2002	-	-	9,701	4,539	4,245	1,332	14,606	34,423
Currency Realignment	-	-	58	-	18	5	23	104
Charge for the year	-	-	3,051	7,929	1,614	723	7,273	20,590
Disposals	-	-	-	(379)	(3)	(9)	(758)	(1,149)
At 31 December 2002	-	-	12,810	12,089	5,874	2,051	21,144	53,968
<b>Net book value:</b>								
At 31 December 2002	140,480	1,513	135,419	41,307	5,101	3,224	35,142	362,186
At 31 December 2001	140,924	32,228	137,645	29,181	2,308	3,383	31,991	377,660

The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:

	Properties							Total HK\$'000
	Freehold investment properties HK\$'000	under con- struction HK\$'000	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	
At cost	-	1,513	148,229	53,396	10,975	5,275	56,286	275,674
At valuation	140,480	-	-	-	-	-	-	140,480
	140,480	1,513	148,229	53,396	10,975	5,275	56,286	416,154

## Notes to the Accounts

For the year ended 31 December 2002

**13. PROPERTY, PLANT AND EQUIPMENT** (continued)

The analysis of the cost or valuation at 31 December 2001 of the above assets is as follows:

	Freehold investment properties HK\$'000	Properties under con- struction HK\$'000	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
At cost	-	32,228	147,346	33,720	6,553	4,715	46,597	271,159
At valuation	140,924	-	-	-	-	-	-	140,924
	<u>140,924</u>	<u>32,228</u>	<u>147,346</u>	<u>33,720</u>	<u>6,553</u>	<u>4,715</u>	<u>46,597</u>	<u>412,083</u>

**(a) Investment properties**

Investment properties represents the freehold properties outside Hong Kong and were revalued at 31 December 2002 on the basis of their open market value by Vigers Landmart Taiwan Ltd., a firm of independent valuers.

**(b) Land and buildings**

The Group's interests in land and buildings at their net book values are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Outside Hong Kong, held on:		
Freehold	40,783	40,890
Leases of between 10 to 50 years	94,636	96,755
	<u>135,419</u>	<u>137,645</u>

**(c) Disposal of assets held for resale**

As of 31 December 2001, properties under construction included amounts paid by the Group of HK\$24,095,000 for three properties, which were intended for the Group's use. Due to changes in management's plans, the Group classified these properties as assets held for resale. The Group then disposed of its interests in such properties, resulting in a gain of HK\$5,817,000.

## Notes to the Accounts

For the year ended 31 December 2002

## 14. INVESTMENTS IN SUBSIDIARIES

	2002 HK\$'000	Company 2001 HK\$'000
Unlisted shares, at cost	<b>286,328</b>	—

As of 31 December 2002, 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	Kind of legal entity	Interest held		Registered capital/ issued share capital	Principal activities and place of operation
				2002	2001		
Shanghai Natural Beauty Cosmetics Co., Ltd. *		PRC 23 November 1992	Sino-foreign cooperative joint venture enterprise	100%	100%	United States Dollars ("US\$") 15,000,000	Production and sales of skin care and beauty products
Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd. ("NB Sanlian")*	(a)	PRC 12 December 1994	Limited liability company	90%	90%	Renminbi ("RMB") 8,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service
Shanghai Natural Beauty Qingbo Cosmetics Co., Ltd. ("NB Qingbo")*	(a)	PRC 30 September 2002	Limited liability company	90%	Nil	RMB5,000,000	Wholesale and retail of skin care and beauty products
Shanghai Natural Beauty Fansi Jewellery Co., Ltd. *		PRC 31 December 2002	Limited liability company	51%	Nil	RMB5,000,000	Sales of jewellery, craftwork, adornment, leather and horologe.
Xi'an Natural Beauty Mingyu Cosmetics Co., Ltd. *	(c)	PRC 10 March 1995	Limited liability company	45.9%	45.9%	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. *	(c)	PRC 7 November 1995	Sino-foreign cooperative joint venture enterprise	45.9%	45.9%	RMB4,000,000	Sales of skin care and beauty products and adornment; skin care and beauty consulting
Nanjing Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 15 October 1999	Limited liability company	81%	45.9%	RMB2,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training

## Notes to the Accounts

For the year ended 31 December 2002

## 14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Note	Place and date of incorporation	Kind of legal entity	Interest held		Registered capital/ issued share capital	Principal activities and place of operation
				2002	2001		
Chengdu Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 4 April 2000	Limited liability company	81%	67.5%	RMB2,500,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Hainan Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 6 December 2000	Limited liability company	81%	72%	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. *	(c)	PRC 18 December 2000	Limited liability company	45.9%	45.9%	RMB4,000,000	Sales of skin care and beauty products and related instruments
Haerbin Sanlian Natural Beauty Cosmetics Co., Ltd. ("NB Haerbin") *	(c)	PRC 18 December 2000	Limited liability company	54%	54%	RMB1,000,000	Sales of skin care and beauty products and related instruments
Ningbo Hai Shu Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 21 December 2000	Limited liability company	63%	63%	RMB3,500,000	Sales of skin care and beauty products and related instruments
Wuhan Natural Beauty Cultural Development Co., Ltd. *	(c)	PRC 27 December 2000	Limited liability company	45.9%	45.9%	RMB2,500,000	Sales of skin care and beauty products and instrument
Jiangxi Natural Beauty Sanlian Cosmetics Co., Ltd. *	(c)	PRC 17 January 2001	Limited liability company	81%	45.9%	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. *	(c)	PRC 6 March 2001	Limited liability company	45.9%	45.9%	RMB2,000,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training
Wenzhou Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 14 March 2001	Limited liability company	45.9%	45.9%	RMB2,000,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training

## Notes to the Accounts

For the year ended 31 December 2002

## 14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Note	Place and date of incorporation	Kind of legal entity	Interest held		Registered capital/ issued share capital	Principal activities and place of operation
				2002	2001		
Beijing Natural Beauty Cosmetics Co., Ltd. ("NB Beijing") *	(c) (d)	PRC 23 March 2001	Limited liability company	72%	45.9%	RMB20,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training (until 30 June 2002)
Kunshan Natural Beauty Sanlian Cosmetics Co., Ltd. *	(c)	PRC 6 April 2001	Limited liability company	81%	45.9%	RMB1,500,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Longyan Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 11 May 2001	Limited liability company	45.9%	45.9%	RMB800,000	Sales of skin care and beauty products and related instruments; skin care and beauty consulting and training
Xiangfan Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 17 May 2001	Limited liability company	45.9%	45.9%	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. *	(c)	PRC 19 May 2001	Limited liability company	81%	45.9%	RMB1,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Changchun Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 24 May 2001	Limited liability company	45.9%	45.9%	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. *	(c)	PRC 1 June 2001	Limited liability company	81%	54%	RMB800,000	Sales of skin care and beauty products and related instruments
Lanzhou Natural Beauty Cosmetic Co., Ltd. *	(c)	PRC 7 June 2001	Limited liability company	49.5%	49.5%	RMB1,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training

## Notes to the Accounts

For the year ended 31 December 2002

## 14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Note	Place and date of incorporation	Kind of legal entity	Interest held		Registered capital/ issued share capital	Principal activities and place of operation
				2002	2001		
Anshan Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 13 June 2001	Limited liability company	45.9%	45.9%	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. *	(c)	PRC 17 June 2001	Limited liability company	81%	45.9%	RMB3,000,000	Wholesale and retail of skin care and beauty products; beauty treatment service; skin care and beauty consulting and training
Suzhou Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 20 June 2001	Limited liability company	81%	45.9%	RMB1,200,000	Sales of skin care and beauty products and related instruments
Kunming Natural Beauty Cosmetics Co., Ltd. *	(c)	PRC 3 July 2001	Limited liability company	81%	63%	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. *	(c)	PRC 16 July 2001	Limited liability company	45.9%	45.9%	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") *	(b)	Taiwan 25 June 1984	Limited liability company	99.959%	99.959%	Taiwan Dollars ("NT\$") 660,000,000	Production and sales of skin care and beauty products
Tian Ran Mei Co., Ltd. ("Tian Ran Mei")*	(b)	Taiwan 30 December 1991	Limited liability company	99.759%	99.759%	NT\$30,000,000	Production and sales of skin care and beauty products
Da Shun Development Co., Ltd.*	(b)	Taiwan 24 December 1997	Limited liability company	99.94%	99.94%	NT\$90,000,000	Investment holding
Jiun Yuh Investment Co., Ltd. *	(b)	Taiwan 29 December 1997	Limited liability company	99.976%	99.976%	NT\$174,681,140	Investment holding
Huei Yao, Investment Co., Ltd. *	(b)	Taiwan 29 December 1997	Limited liability company	99.97%	99.97%	NT\$234,681,140	Investment holding
Wan Fang Investment Co., Ltd. *	(b)	Taiwan 31 December 1997	Limited liability company	99.97%	99.97%	NT\$242,681,140	Investment holding



## Notes to the Accounts

For the year ended 31 December 2002

## 14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Note	Place and date of incorporation	Kind of legal entity	Interest held		Registered capital/ issued share capital	Principal activities and place of operation
				2002	2001		
Belem Holdings Sdn. Bhd. ("Belem Holdings")		Malaysia 19 August 1999	Limited liability company	100%	100%	Malaysian Ringgit ("RM") 123,235,408 Class B shares 10,000 Class A shares	Investment holding
Ice Crystal Management Limited ("Ice Crystal")		British Virgin Islands ("BVI") 5 January 2000	Limited liability company	100%	100%	US\$52,000	Investment holding
Great Glamour Co., Ltd. ("Great Glamour")		BVI 22 January 2001	Limited liability company	100%	100%	US\$50,000	Investment holding
Next Success International Limited ("Next Success")		BVI 2 September 2002	Limited liability company	100%	100%	US\$50,000	Investment holding
Natural Beauty Bio-Technology (Hong Kong) Co., Ltd. ("NB Hong Kong") *		Hong Kong 16 May 2001	Limited liability company	100%	100%	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 and controlled by the Company.

- (a) The Group has entered into agreements with the minority shareholders of certain subsidiaries to the effect that these minority shareholders have agreed to accept a pre-fixed amount whereas the Group will be entitled to/responsible for the entire operating profit/loss of the relevant subsidiaries for the whole duration of the operating period of the subsidiaries. The pre-fixed amounts paid/payable to these minority shareholders of the subsidiaries are recognised as minority interests in both the consolidated balance sheet and consolidated profit and loss account. The names of these subsidiaries and an abstract of the agreement terms are as follows:

Name	Pre-fixed amount per annum RMB'000	Commencement date
NB Sanlian	200	20 December 2001
NB Qingbo	125	30 September 2002

## Notes to the Accounts

For the year ended 31 December 2002

### 14. INVESTMENTS IN SUBSIDIARIES (continued)

(b) These companies incorporated in Taiwan ("Taiwan Companies") were audited by KPMG Certified Public Accountants.

#### (c) Acquisition of minority interests in subsidiaries

On 10 September 2002, 8 October 2002 and 28 October 2002, NB Sanlian entered into 25 Sales and Purchase Agreements ("S&P Agreements") with Chong Ming Sanlian Investment Development Company ("Chong Ming Sanlian") and the respective minority shareholders ("Vendors") of its sales subsidiaries in the PRC (the "PRC Subsidiaries") to acquire the equity interests of PRC Subsidiaries not yet owned by the Group from each of the minority shareholder for a total consideration of HK\$41,106,000, and to assume all management and operation rights of the acquired PRC Subsidiaries, subject to the following conditions precedent to completion ("Conditions Precedent"):

- (i) the majority Shareholder having approved the acquisitions by means of a written resolution;
- (ii) if required, all necessary approval, consent and waiver, in accordance with the Listing Rules, by the Stock Exchange having been obtained in respect of the acquisitions and the transactions contemplated thereunder;
- (iii) a PRC lawyer having confirmed in its written legal opinion to the satisfaction of the purchaser to the effect that the S&P Agreements are valid and legally enforceable in accordance with the PRC laws; and
- (iv) if required, all other necessary approvals, consents and registrations as may be required by any laws of the relevant jurisdictions or from any relevant regulatory bodies having been obtained or completed.

Upon completion, NB Sanlian will own 80% of NB Beijing and NB Haerbin and 90% of 23 other PRC Subsidiaries, and Chong Ming Sanlian will own the remaining 20% of NB Beijing and NB Haerbin and 10% of 23 other PRC Subsidiaries.

Each of the consideration for the 25 acquisitions was negotiated with the 25 minority shareholders independently on an arm's length basis and on normal commercial terms and is determined based on 200% of the net asset value of the acquired portion of the interests of each of the PRC Subsidiary as at 1 July 2002 as verified by a firm of PRC certified public accountants.

## Notes to the Accounts

For the year ended 31 December 2002

### 14. INVESTMENTS IN SUBSIDIARIES (continued)

#### (c) Acquisition of minority interests in subsidiaries (continued)

According to the S&P Agreements, from 1 July 2002, NB Sanlian will start to share the results of the PRC Subsidiaries according to its new shareholding percentages in the PRC Subsidiaries after the acquisitions. The net losses of the PRC Subsidiaries since 1 July 2002 have been dealt with in the Group's profit and loss account according to NB Sanlian's respective new shareholding percentages in the PRC Subsidiaries.

As of 31 December 2002, NB Sanlian has completed acquisitions for 11 PRC Subsidiaries at a total consideration of HK\$21,217,000. For the remaining 14 PRC Subsidiaries, Conditions Precedent as stated above have not been fulfilled.

- (d) During the year, the Group entered into an agreement with the minority shareholder of a 72% held subsidiary, NB Beijing. Under this agreement, which has become effective from 1 July 2002, the minority shareholder is to undertake the entire business operations of NB Beijing for a period of five years and would be entitled to/responsible for the operating profit/loss. The depreciation charge of the operating assets would still be borne by NB Beijing. In return, the Group will receive a fixed income of RMB4.2 million each year.

### 15. INTERESTS IN AN ASSOCIATED COMPANY

	2002 HK\$'000	Group 2001 HK\$'000
Share of net assets	<u>942</u>	<u>—</u>

The details of the associated company are:

Name	Place of incorporation and operation	Principal activities	Paid-in capital	Interest held indirectly
Shanghai Rui Mei Medical and Health-care Co., Ltd.	PRC	Health care service	RMB5,000,000	20%

## Notes to the Accounts

For the year ended 31 December 2002

**16. NON-TRADING SECURITIES**

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	<u>11,282</u>	<u>4,446</u>	<u>6,786</u>	<u>–</u>

**17. DEFERRED TAX ASSETS**

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

	2002 HK\$'000	2001 HK\$'000
1 January	1,020	1,535
Current year timing difference (Note 6)	(242)	(354)
Currency realignment	<u>28</u>	<u>(161)</u>
31 December	<u>806</u>	<u>1,020</u>

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

	2002 HK\$'000	2001 HK\$'000
Provision for retirement benefit obligations	1,908	1,694
Depreciation of investment properties	(1,280)	(1,022)
Other timing differences	<u>178</u>	<u>348</u>
	<u>806</u>	<u>1,020</u>

**18. OTHER ASSETS**

Other assets represent the consideration paid for acquisitions of equity interests of certain subsidiaries not yet held by the Group. These acquisitions are expected to be completed in 2003 and consequently these amounts will be capitalised.

## Notes to the Accounts

For the year ended 31 December 2002

## 19. INVENTORIES

	2002 HK\$'000	2001 HK\$'000
Finished goods	26,506	28,964
Raw materials	26,276	22,908
Work in progress	2,081	2,410
	<u>54,863</u>	<u>54,282</u>
Less: Provision for inventory obsolescence	(2,145)	(1,608)
	<u>52,718</u>	<u>52,674</u>

At 31 December 2002, the carrying amount of inventories that are carried at net realisable value amounted to HK\$8,107,000 (2001: HK\$1,608,000).

## 20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Due from subsidiaries	–	–	185,199	–
Trade receivables	49,248	27,769	–	–
Prepayments and deposits	29,894	13,633	–	–
Advances to third parties	6,841	1,784	–	–
Prepaid share issuance expenditures	–	5,463	–	5,463
Financial refunds receivable (Note 6)	3,299	15,076	–	–
Other receivables	13,136	2,262	424	–
	<u>102,418</u>	<u>65,987</u>	<u>185,623</u>	<u>5,463</u>
Less: Provision for doubtful debts	(1,286)	(1,619)	–	–
	<u>101,132</u>	<u>64,368</u>	<u>185,623</u>	<u>5,463</u>

Prepaid share issuance expenditures in 2001 represented costs incurred in connection with the proposed issuance and listing of the Company's shares on the Stock Exchange and were offset against shares premium arising from the share issuance.

## Notes to the Accounts

For the year ended 31 December 2002

**20. TRADE AND OTHER RECEIVABLES** (continued)

The ageing analysis of trade receivable is as follows:

	2002 HK\$'000	2001 HK\$'000
Within 6 months	48,090	27,102
6 to 12 months	639	303
1 to 2 years	352	133
Over 2 years	167	231
	<u>49,248</u>	<u>27,769</u>

**Credit policy:**

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

**21. TRADING SECURITIES**

	2002 HK\$'000	2001 HK\$'000
Equity securities listed outside Hong Kong	<u>88,133</u>	<u>65,750</u>

**22. TRADE AND OTHER PAYABLES**

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Due to related parties	716	7,209	716	5,463
Trade payables	15,001	18,303	–	–
Deposits from customers	11,675	10,214	–	–
Advances from customers	13,326	9,282	–	–
Other taxes payables	9,323	4,432	–	–
Dividend payable to then shareholders of the Group's subsidiaries prior to the listing of the Company	–	56,084	–	–
Other payables	32,772	29,687	700	–
	<u>82,813</u>	<u>135,211</u>	<u>1,416</u>	<u>5,463</u>

## Notes to the Accounts

For the year ended 31 December 2002

**22. TRADE AND OTHER PAYABLES (continued)**

The aging analysis of the trade payable is as follows:

	2002 HK\$'000	2001 HK\$'000
Within 6 months	14,998	18,262
6 months to 1 year	3	41
	<u>15,001</u>	<u>18,303</u>

**23. RETIREMENT BENEFIT OBLIGATIONS**

	2002 HK\$'000	2001 HK\$'000
Obligations on:		
– defined contribution plans	–	–
– defined benefits plans	7,598	6,776
	<u>7,598</u>	<u>6,776</u>

The Group has defined benefits plans in Taiwan. Most of the pension plans are final salary defined benefits plans. The assets of the funded plans are held independently of the Group assets in separate trustee administered funds. The Group's major plans are valued by qualified actuaries annually using the projected unit credit method. Defined benefits plans are valued by KPMG Consulting Co., Ltd..

The amounts recognised in the profit and loss account were as follows:

	2002 HK\$'000	2001 HK\$'000
Current service cost	867	814
Interest cost	327	385
Expected return on plan assets	(45)	(45)
Net actuarial losses recognised	(47)	(106)
	<u>1,102</u>	<u>1,048</u>
Total, included in staff costs (Note 10)		

## Notes to the Accounts

For the year ended 31 December 2002

**23. RETIREMENT BENEFIT OBLIGATIONS** (continued)

The amounts recognised in the balance sheet are determined as follows:

	2002 HK\$'000	2001 HK\$'000
Present value of funded obligations	10,313	7,549
Fair value of plan assets	(2,222)	(1,808)
	<u>8,091</u>	<u>5,741</u>
Unrecognised net actuarial (loss) gain	(493)	1,035
Liability in the balance sheet	<u>7,598</u>	<u>6,776</u>

The principal actuarial assumptions used were as follows:

	2002	2001
Discount rate	3.75%	4.50%
Expected rate of future salary increases	2.50%	2.50%
Expected rate of return on plan assets	3.75%	4.50%

Movement in the liability recognised in the balance sheet:

	2002 HK\$'000	2001 HK\$'000
At 1 January	6,776	6,665
Total expense – as shown above	1,102	1,048
Contributions paid	(351)	(322)
Currency realignments	71	(615)
At 31 December	<u>7,598</u>	<u>6,776</u>



## Notes to the Accounts

For the year ended 31 December 2002

**24. SHARE CAPITAL**

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

	<b>Authorised</b>	
	<b>No. of Shares</b>	<b>Ordinary shares of HK\$0.1 each HK\$</b>
At 29 June 2001 (date of incorporation) (Note (a)) and at 31 December 2001	3,900,000	390,000
Increase on 11 March 2002 (Note (c))	<u>3,996,100,000</u>	<u>399,610,000</u>
At 31 December 2002	<u>4,000,000,000</u>	<u>400,000,000</u>

	<b>Issued and fully paid</b>	
	<b>No. of Shares</b>	<b>Ordinary shares of HK\$0.1 each HK\$</b>
At 29 June 2001 (date of incorporation) (Note (a)) and at 31 December 2001	1	0.10
New shares issued on 11 March 2002 (Note (c))	1,499,999,999	149,999,999.90
New shares issued on 28 March 2002 (Note (d))	<u>500,000,000</u>	<u>50,000,000.00</u>
At 31 December 2002	<u>2,000,000,000</u>	<u>200,000,000.00</u>

Details of movements in share capital since its incorporation:

- (a) Upon incorporation of the Company on 29 June 2001, the authorised share capital was HK\$390,000, divided into 3,900,000 shares of HK\$0.10 each. 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 the basis set out in Note 2(a), the share capital of the Group as of 31 December 2001 represented the combined paid-up capital of the subsidiaries of the Group.

## Notes to the Accounts

For the year ended 31 December 2002

### 24. SHARE CAPITAL (continued)

- (c) Pursuant to a written resolution of the sole shareholder of the Company passed on 11 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 new shares. On the same date, pursuant to the Reorganisation described in Note 1 to the accounts, the Company allotted and issued:
- (i) 1,118,595 shares, credited as fully paid at par, to Efficient Market in consideration for the acquisitions 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;
  - (ii) 2,781,403 shares, credited as fully paid at par, to Efficient Market in consideration for the conversion of 123,235,408 issued shares in the capital of Belem held by Efficient Market to Class B shares (Details are disclosed in appendix VI of the Prospectus dated 19 March 2002);
  - (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; and
  - (iv) 1,496,100,000 shares were allotted and issued as fully paid at par, to Efficient Market from the share premium account.

The net assets injected by Efficient Market on 11 March 2002 in excess of par value of shares issued to Efficient market amounting to HK\$136,328,000 was capitalised as share premium.

- (d) On 28 March 2002, 450,000,000 shares were issued under private placement and 50,000,000 shares were issued to public, all at a premium of HK\$0.45 each.
- (e) 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 2002, no share options were granted.

## Notes to the Accounts

For the year ended 31 December 2002

## 25. RESERVES

## Group

	Capital surplus HK\$'000	Share premium HK\$'000	Property revaluation reserve HK\$'000	Statutory reserve HK\$'000 (Note (a))	Exchange translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balances as of 31 December 2001	42,554	–	12,243	28,402	(20,796)	105,612	168,015
Currency realignment	–	–	–	–	2,890	–	2,890
Premium arising from new shares issued on 11 March 2002 (Note 24)	–	136,328	–	–	–	–	136,328
Premium arising from new shares issued on 28 March 2002 (Note 24)	–	225,000	–	–	–	–	225,000
Share issuance expenses	–	(24,570)	–	–	–	–	(24,570)
Net profit	–	–	–	–	–	66,472	66,472
Transfer to statutory reserve	–	–	–	15,932	–	(15,932)	–
Dividends (Note 8)	–	–	–	–	–	(37,960)	(37,960)
Deficit on revaluation of investment properties	–	–	(2,045)	–	–	–	(2,045)
Balances as of 31 December 2002	<u>42,554</u>	<u>336,758</u>	<u>10,198</u>	<u>44,334</u>	<u>(17,906)</u>	<u>118,192</u>	<u>534,130</u>
Representing:							
2002 Final dividend proposed						40,000	
Others						<u>78,192</u>	
Retained earnings as at 31 December 2002						<u>118,192</u>	

## Notes to the Accounts

For the year ended 31 December 2002

**25. RESERVES (continued)****Group (continued)**

	Capital surplus	Share premium	Property revaluation reserve	Statutory reserve	Exchange translation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				Note (a)			
Balances as of 31 December 2000	99,939	–	25,755	20,780	7,610	81,869	235,953
Currency realignment	–	–	–	–	(28,406)	–	(28,406)
Issue of share capital of subsidiaries	(57,385)	–	–	–	–	–	(57,385)
Net profit	–	–	–	–	–	71,043	71,043
Transfer to statutory reserve	–	–	–	7,622	–	(7,622)	–
Dividends (Note 8)	–	–	–	–	–	(39,678)	(39,678)
Deficit on revaluation of investment properties	–	–	(13,512)	–	–	–	(13,512)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balances as of 31 December 2001	<u>42,554</u>	<u>–</u>	<u>12,243</u>	<u>28,402</u>	<u>(20,796)</u>	<u>105,612</u>	<u>168,015</u>
Representing:							
2001 Final dividend proposed						22,960	
Others						82,652	
						<u>          </u>	
Retained earnings as at 31 December 2001						<u>105,612</u>	

## Notes to the Accounts

For the year ended 31 December 2002

## 25. RESERVES (continued)

## Company

	Capital surplus	Share premium	Property revaluation reserve	Statutory reserve	Exchange translation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balances as of 31 December 2001	-	-	-	-	-	-	-
Premium arising from new shares issued on 11 March 2002 (Note 24)	-	136,328	-	-	-	-	136,328
Premium arising from new shares issued on 28 March 2002 (Note 24)	-	225,000	-	-	-	-	225,000
Share issuance expenses	-	(24,570)	-	-	-	-	(24,570)
Net profit	-	-	-	-	-	38,667	38,667
Dividends (Note 8)	-	-	-	-	-	(37,960)	(37,960)
	<u>-</u>	<u>336,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>707</u>	<u>337,465</u>
Balances as of 31 December 2002	-	336,758	-	-	-	707	337,465

In 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.

- (a) According to the laws and regulations of the PRC, PRC subsidiaries with foreign investment 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.

## Notes to the Accounts

For the year ended 31 December 2002

**26. CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of profit before taxation to net cash inflow generated from operations**

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	87,028	82,182
Reversal of provision for doubtful debts	(333)	(595)
Provision/(reversal of provision) for write-down of inventory	537	(630)
Depreciation	20,590	12,870
Amortisation of goodwill	83	37
Amortisation of patents and trademarks	110	71
Amortisation of development costs	910	–
Amortisation of software costs	78	25
Gain on disposal of assets held for resale (Note 13(c))	(5,817)	–
Loss/(gain) on disposal of property, plant and equipment	158	(132)
Gain on disposal of trading securities	(2,445)	(3,017)
Interest income	(1,903)	(1,355)
Interest expenses	477	791
Share of profit of an associate	–	(73)
Deferred income	5,320	–
Operating profit before working capital changes	<u>104,793</u>	<u>90,174</u>
Increase in inventories	(581)	(4,113)
(Increase)/decrease in trade and other receivables	(48,207)	26,050
Increase in trade and other payables	9,768	22,586
Increase in retirement benefit obligations	822	111
Net cash inflow generated from operations	<u><u>66,595</u></u>	<u><u>134,808</u></u>

## Notes to the Accounts

For the year ended 31 December 2002

**26. CONSOLIDATED CASH FLOW STATEMENT (continued)****(b) Analysis of changes in financing during the year**

	Dividend payable		Share capital including premium		Minority interests		Short-term bank borrowings	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	56,084	56,084	328,882	328,882	28,269	4,316	2,112	122
Minority interests' share of losses	-	-	-	-	(1,338)	(1,325)	-	-
Property revaluation reserve attributable to minority shareholders	-	-	-	-	(1)	(5)	-	-
Minority interests assumed in acquisition of subsidiaries	-	-	-	-	-	4,690	-	-
Acquisition of minority interests in subsidiaries (Note 14(c))	-	-	-	-	(10,038)	-	-	-
Cash (outflows)/inflows	(94,044)	(39,678)	250,430	-	3,427	20,604	(2,112)	1,990
Dividends	37,960	39,678	-	-	-	-	-	-
Currency realignment	-	-	-	-	3	(11)	-	-
At 31 December	-	56,084	579,312	328,882	20,322	28,269	-	2,112

## Notes to the Accounts

For the year ended 31 December 2002

**26. CONSOLIDATED CASH FLOW STATEMENT** (continued)**(c) Major non-cash transactions**

## (i) Acquisition of property, plant and equipment

	2002 HK\$'000	2001 HK\$'000
Payable for purchase of property, plant and equipment, beginning of year	13,284	5,431
Additions in property, plant and equipment	32,196	77,275
Cash payment for the increase in property, plant and equipment	(44,638)	(69,419)
Currency realignment	(1)	(3)
Payable for purchase of property, plant and equipment, end of year	<u>841</u>	<u>13,284</u>

## (ii) Barter transactions

	2002 HK\$'000	2001 HK\$'000
Gross revenues derived from barter transactions that do not involve cash receipts	<u>17,098</u>	<u>–</u>

**(d) Analysis of balance of cash and cash equivalents**

	2002 HK\$'000	2001 HK\$'000
Cash on hand	1,351	948
Saving deposits	155,283	75,162
Deposit in a financial institution	60,144	–
	<u>216,778</u>	<u>76,110</u>



## Notes to the Accounts

For the year ended 31 December 2002

**27. COMMITMENTS****(a) Commitments under operating leases**

At 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002 HK\$'000	2001 HK\$'000
Not later than one year	24,255	22,587
Later than one year and not later than five years	58,726	51,490
Later than five years	35,823	27,640
	<u>118,804</u>	<u>101,717</u>

**(b) Capital commitments**

- (i) At 31 December 2002, the Group has commitment of HK\$8,846,000 for the acquisitions of additional interests in subsidiaries from minority interests (Note 14(c)).
- (ii) On 30 September 2002, Next Success entered into an agreement to acquire the entire interest of Shanghai Full-Beauty Cosmetics Co., Ltd., a company principally engaged in the production and sales of cosmetic products in the PRC. Up to the date of this report, the transaction has still not been completed and the exact consideration of the acquisition has not been determined.

## Notes to the Accounts

For the year ended 31 December 2002

### 28. 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 12, 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 will continue after the listing of the Company's shares on the Stock Exchange.

	2002 HK\$'000	2001 HK\$'000
Rental income	<u>483</u>	<u>364</u>
Rental expenses	<u>190</u>	<u>194</u>

- (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. The licensing agreements will be effective till the expiry of the registration of the respective trademarks.

Amounts due to related parties are unsecured and interest-free, and have no fixed repayment terms.

### 29. ULTIMATE HOLDING COMPANY

The directors regard Efficient Market, a company incorporated in British Virgin Islands, as being the ultimate holding company.

### 30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23 April 2003.