

Management Discussion and Analysis 管理層討論及分析

FINANCIAL REVIEW

Total turnover of the Group for the year ended 31 December 2003 amounted to HK\$320,086,000 (2002: HK\$323,251,000), representing a slight decrease of approximately 1.0% when compared to 2002. The onset of the Severe Acute Respiratory Syndrome ("SARS") in Asia, which lasted seven months from March to September, dealt a severe blow to the Group's business, leading to a 27% drop in turnover in the first half of 2003 when compared with the corresponding period in 2002. As the impact of "SARS" eased in the fourth quarter, the economy gradually recovered, resulting in a relatively stable year-to-year performance in terms of product sales and service income in the Greater China region.

Profit attributable to shareholders decreased to HK\$54,142,000 (2002: HK\$68,258,000), representing a decrease of 20.7%. The decrease in profit was principally the result of the increase in the sales, marketing and



administrative expenses. To make up the decrease in sales attributable to the outbreak of SARS, the Group progressively expanded its sales channel and increased the discount rate offered to its distributors. Since the containment of SARS, the Group put more resources in marketing to promote the sales of its products and the launch of new products, as a result of which, sales and administrative expenses increased. Subsequently, higher sales, marketing and administrative expenses amounted to HK\$193,112,000 was recorded during the period, representing 60.3% (2002: 49.3%) of the Group's turnover.

財務回顧

截至二零零三年十二月三十一日止年度，本集團之總營業額為320,086,000港元（二零零二年：323,251,000港元），較二零零二年輕微下跌約1.0%。雖然期內由三月到九月亞洲區內爆發嚴重急性呼吸系統綜合症（「非典型肺炎」），歷時七個月之久，對本集團業務造成沖擊，令二零零三年上半年營業額較二零零二年同期下跌27%，但是隨着「非典型肺炎」在第四季影響減退，經濟逐步復甦，因此大中華地區產品銷售及服務收入以全年計仍獲得相對穩定的表現。

股東應佔溢利下跌至54,142,000港元（二零零二年：68,258,000港元），跌幅為20.7%。溢利下跌主要由於銷售、推廣及行政費用上升。在非典型肺炎期爆發期間，為彌補放緩之銷



情，集團銳意擴充銷售渠道，並加大給予各經銷商的折扣率；在非典型肺炎退卻後，集團為刺激產品銷售而加強市場推廣，再加上為配合新產品之推出，銷售及行政費用亦有所上升。結果，集團在期內錄得較高之銷售、推廣及行政費用，達193,112,000港元，佔集團營業額60.3%（二零零二年：49.3%）。

Management Discussion and Analysis 管理層討論及分析

FINANCIAL REVIEW (continued)

Geographically, the performance of both the PRC and Taiwan operations in the year 2003 was in line with our internal target. Turnover from the PRC business increased 1.5% to HK\$200,618,000, accounting for 62.7% of the total turnover of the Group. The increase was mainly attributable to the launch of several popular new products. Due to the increase in operating expenses as a result of the SARS outbreak in the region during the period, operating profits dropped 10.9% to HK\$55,126,000.

The Taiwan business contributed HK\$118,084,000 or 36.9% to the Group's total turnover, representing a 3.6% decrease. Operating profits dropped 23.7% to HK\$38,393,000. The decreases were attributed to the SARS outbreak in the region during the period.

The Group's operations in Hong Kong recorded a 95.5% drop in turnover amounted to HK\$141,000, accounting for 0.04% of the Group's total turnover and an operating loss of HK\$3,285,000. The decrease in turnover was the result of the change of operation mode to entrustment basis and the revenues and expenses of its outlets are not included by the Group.

Gross profit margin of the Group for the year ended 31 December 2003 increased to 80.9%, mainly due to the measures implemented by the Group to minimise the sales-related cost of sales and increase in the proportion of the product sale income which has comparatively higher gross profit margin. Operating profit margin dropped to 26.1% as a result of higher expenditure. Having been struck by "SARS", expansion of the Group's sales points slowed down last year and the construction of our third plant was also delayed, and capital expenditure decreased accordingly.

財務回顧(續)

就按地域分佈而言，中國大陸及台灣業務於二零零三年之表現符合集團內部預期。中國大陸方面的營業額增加1.5%至200,618,000港元，佔集團總營業額62.7%。增長主要來自推出多種廣受市場歡迎的新產品。由於期內區內爆發非典型肺炎所影響經營支出上升，經營溢利下跌10.9%至55,126,000港元。

來自台灣業務的營業額為118,084,000港元，下跌3.6%，佔集團總營業額36.9%。經營溢利下跌23.7%至38,393,000港元。期內下跌均由區內爆發非典型肺炎所受之影響。

本集團香港業務的營業額則為141,000港元，跌幅為95.5%，佔集團總營業額0.04%。香港業務錄得經營虧損3,285,000港元。營業額下降原因是集團於期內將業務轉為委託經營，因此其店舖之收入及支出不再納入本集團之範圍計算。

截至二零零三年十二月三十一日止年度，集團邊際毛利增加至80.9%，主要由於本集團採取多項減省銷售相關成本之措施以及增加邊際毛利較高之產品銷售收益比例；而邊際經營溢利則因支出增加而下跌至26.1%。受「非典型肺炎」影響，本集團去年擴充銷售點的進度放緩，而建造第三間廠房的進度亦受阻，有關資本性支出亦相應減少。

Management Discussion and Analysis 管理層討論及分析

FINANCIAL REVIEW (continued)

Last year, in order to improve operational efficiency, the Group committed to streamline its structure and implement cost containment measures, including negotiations with outlet landlords and our directors for rental reduction and voluntary remuneration cut by our directors. In December 2003, the Group implemented the Oracle system in Taiwan and the efficiency of accounting and sales point system was enhanced substantially. The system not only improved our efficiency in terms of manufacturing, inventory management and product delivery, but also enhanced the platform for accessing data of our business partners and individual clients, increasing the efficiency and effectiveness of our marketing strategy and activities. In view of the advantages, the Group will implement the system in the PRC soon.

The Board recommended the payment of final dividend of 1.5 cents for the year, making the full year dividend to 2.1 cents.

PRODUCTS AND SERVICES

The Group is principally engaged in the manufacturing and sales of three types of products, namely skin care products, beauty products and aromatherapeutic products. The turnover generated from sale of products slightly increased to HK\$296,583,000 (2002: HK\$269,804,000), accounting for 92.7% of the Group's turnover. The Group successfully launched several new products during the onset of SARS, including several anti-germ aromatherapeutic products in Taiwan, Hong Kong and China. The Group further launched its high-end anti-aging NB-1 product series in November 2003. The product was well received. Over around 16,000 sets were sold within two months since its launch, making a significant contribution to the Group's turnover and earnings.

財務回顧 (續)

去年本集團致力實施精簡架構·節約成本·包括與業主商議店舖減租及董事自願減收酬金·藉此改善營運效率。與此同時·二零零三年十二月·集團於台灣成功實施了甲骨文系統·大大增強會計及銷售點系統的運作效率。該系統不但提高集團生產·存貨管理及貨品運輸各方面的營運效率·而且改進存取商業夥伴及個別客戶資料的運作平台·令集團進行市務推廣策略及活動時更具效率及效益。集團將盡快在中國實施這項甲骨文系統。

本年度董事會建議派發末期股利1.5港仙·全年派息共2.1港仙。

產品與服務

本集團主要從事製造及銷售護膚品·彩粧品及芳香療法產品三大類產品。來自產品銷售之營業額上升至296,583,000港元(二零零二年:269,804,000港元),佔集團營業額92.7%。在非典型肺炎肆虐期間·集團在中港台三地成功推出多項新產品·如多種防菌芳香療法產品·此外在二零零三年十一月又成功推出高檔次抗衰老產品系列NB-1。該產品獲得市場充份肯定·在短短兩個月內即售出超過約16,000套·為集團營業額及盈利帶來重大貢獻。

Management Discussion and Analysis 管理層討論及分析

PRODUCTS AND SERVICES (continued)

The Group also provides skin treatments, beauty and spa services through its self-owned and self-operated Class-A Natural Beauty SPA. As a result of less patronage to our spas during SARS and part of the self-owned outlets have been changed into entrustment basis, income from these services decreased to HK\$18,719,000, (2002: HK\$51,468,000) accounting for 5.8% of the Group's turnover for the year ended 31 December 2003. Service income is generated from self-owned and operated beauty centres and the Group does not share any service income generated from those franchised beauty centres under the current franchise programme. The Group expects the growing demand for skin treatment, beauty and spa services in the PRC will continue as the economy of the PRC continues to prosper.

DISTRIBUTION CHANNELS

For the year ended 31 December 2003, the Group has a total of approximately 2,300 beauty centres and product sales outlets in Taiwan, Hong Kong and China, including around 54 Class-A Natural Beauty SPA and 740 Class-B NB Salon SPA, 830 Class-C NB Beauty Salon, 520 Mini SPA and 160 dedicated sales counters. Of the total, around 230 stores are self-owned and operated by the Group. The Group will continue to expand its sales and distribution network in the Greater China region. It is expected that the number of sales outlets will be increased by in the range from 200 to 300, bringing the total number to over 2,600 by the end of 2004.

產品與服務 (續)

集團亦透過其自資經營的A級美容中心自然美SPA生活館提供肌膚護理、美容及SPA服務。期內，由於非典型肺炎影響顧客光顧美容中心及部份自資經營的美容中心轉變為委託經營模式，來自服務的收入下跌至18,719,000港元（二零零二年：51,468,000港元），佔集團截至二零零三年十二月三十一日止年度營業額5.8%。基於根據現行加盟計劃，本集團並不與加盟經營者分享加盟美容中心的任何服務收入，服務收入僅指自資經營美容中心的收入。本集團認為，受惠於中國大陸經濟欣欣向榮，肌膚護理、美容及SPA服務於中國大陸的需求將持續增加。

分銷渠道

截至二零零三年十二月三十一日止年度，本集團於中港台三地共擁有約2,300家美容中心及產品銷售點，其中約54間為A級自然美SPA生活館，約740間為B級自然美沙龍SPA，約830間為C級自然美專業美容中心，以及約520間Mini SPA，另有約160間專櫃。由集團自資經營的店舖約為230間。集團將繼續擴充於大中華地區的經銷專門店，預計集團經銷專門店的總數於二零零四年年底將增加200至300間至超過2,600間。

Management Discussion and Analysis 管理層討論及分析

DISTRIBUTION CHANNELS (continued)

The Group has already set up dedicated sales counters at its existing sales outlets under the concept of “shop within shop”, so as to boost product sales of the Group. Moreover, the Group has introduced the new distribution concept of “Mini SPA”, with an aim to diversify its sales network to cater for the general public market. The Group has also worked with franchisees to transform Class-C NB Beauty Salon into Class-B NB Salon SPA with a view to improve corporate image and promote sales of products with higher profit margin. The Group believes that the transformation will enhance sales capability of franchised stores, which will in turn boost the Group’s product sales. In the coming year, the Group will continue to re-position more Class-C NB beauty centres as either Class-B NB Salon SPA or Mini SPA.

The Group opened its NB SPA in Four Seasons Hotel in Shanghai to capture the local affluent customers with high spending power who are beauty conscious. The Group will solicit further collaboration with five-star hotels or other high-class venue providers to operate premium beauty and spa centres in order to strengthen its presence in the Greater China region.

LIQUIDITY AND FINANCIAL MANAGEMENT

Cash generated from operations for 2003 was approximately HK\$37,601,000 (2002: HK\$85,441,000). The drop was primarily due to substantial increase in trade receivables arising from sales through agents of television direct sales and year end credit sales. As at 31 December 2003, the Group had bank balances and cash of approximately HK\$170,265,000 and trading securities (which are mainly capital guaranteed bond funds) of approximately HK\$67,642,000 with no external bank borrowing. Details of the Group’s charged assets are set out in note 13 of the Company’s audited financial statements.

分銷渠道 (續)

本集團已於現有經銷專門店開設銷售專櫃，即「店中店」，以增加本集團產品銷量。另外，本集團已引入名為「Mini SPA」的分銷新概念，將銷售網絡多元化，以配合普羅大眾的市場。本集團更與加盟經營者合作，將C級自然美專業美容中心轉為B級自然美沙龍SPA，改善公司形像及促銷邊際利潤更高的產品。集團相信，轉型可增強加盟專門店的銷貨能力，從而提高本集團的產品銷售。在來年，本集團會繼續將更多C級自然美專業美容中心轉型為B級自然美沙龍SPA或Mini SPA。

本集團已於上海四季酒店開設一間自然美SPA，吸引當地消費力強的愛美人士。今後，本集團將物色更多五星級酒店或其他高檔場所作為合作夥伴，開設更多的尊貴豪華型美容中心及SPA，加強集團於大中華地區的市場領導地位。

流動資金及財務管理

二零零三年來自經營業務所得的現金淨額約為37,601,000港元（二零零二年：85,441,000港元），有關跌幅主要由於透過電視直銷代理進行的銷售及年底信貸銷售產生之應收賬款導致應收賬款大幅上升所致。於二零零三年十二月三十一日，本集團有銀行結存及現金約170,265,000港元及買賣證券（主要為保本債券基金）約67,642,000港元，另外並無銀行借款。有關本集團之抵押資產，詳情載於本公司經審核財務報表附註13。

Management Discussion and Analysis 管理層討論及分析

LIQUIDITY AND FINANCIAL MANAGEMENT (continued)

In terms of gearing, as at 31 December 2002 and 2003, the Group's gearing ratio was zero (defined as net debt divided by shareholders' equity) as the Group has a net cash balance as at both year end dates. Current ratio of the Group (defined as current assets divided by current liabilities) as at 31 December 2003 was approximately 6.0 times (2002: approximately 4.6 times). As at 31 December 2003, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and short term securities in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and working capital requirements.

TREASURY POLICIES AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group derives most of its revenue denominated in Renminbi and New Taiwan Dollar from the PRC and Taiwan as its operations are mainly concentrated in these two geographical areas. As at 31 December 2003, approximately 71.6% of the Group's bank balances and cash was denominated in Renminbi, while approximately 2.5% was denominated in New Taiwan Dollar and the remaining 25.9% was denominated in United States Dollars and Hong Kong Dollars. The Group continued to adopt a conservative approach in respect of foreign exchange exposure management. Review of the Group's exposure to foreign exchange risk will be conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2003, the Group had a total of 1,308 employees, of which 1,127 were based in the PRC and aggregate of 181 in Taiwan and Hong Kong. Total remuneration for the year ended 31 December 2003 was approximately HK\$52,042,000, including retirement benefits cost of HK\$5,616,000. Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a periodical basis.

流動資金及財務管理 (續)

關於資產負債情況，於二零零二年及二零零三年十二月三十一日，本集團資產負債比率（界定為淨負債除以股東權益）為零，因為本集團於兩個年結日均有淨現金結餘。於二零零三年十二月三十一日，本集團的流動比率（界定為流動資產除以流動負債）約為6.0倍（二零零二年：約4.6倍）。於二零零三年十二月三十一日，除於財務報表及其附註所披露外，本集團並無重大或然負債。憑藉所持有的現金及短期證券，本集團流動資金狀況甚為穩健，財務資源充裕，足以應付其承諾及營運資金所需。

理財政策及所承受之匯兌風險

基於本集團業務主要集中於中國大陸及台灣，大部份收益亦來自上述兩地，並分別以人民幣及新台幣計值。於二零零三年十二月三十一日，本集團銀行結存及現金約71.6%以人民幣計值，另約2.5%為新台幣計值，餘下25.9%則以美元及港元計值。於外幣風險管理方面，本集團繼續採取保守政策，定期檢討其所承受之外幣風險，並且於需要時使用金融衍生工具對沖有關風險。

員工、培訓及發展

於二零零三年十二月三十一日，本集團在中國大陸聘有1,127名僱員及台灣加香港共聘有181名僱員，合共1,308名。截至二零零三年十二月三十一日止年度，總酬金開支約為52,042,000港元，其中包括退休福利成本5,616,000港元。為吸引、挽留及鼓勵表現卓越的僱員，本集團保持具有競爭力的酬金組合，並進行定期檢討。

Management Discussion and Analysis 管理層討論及分析

EMPLOYMENT, TRAINING AND DEVELOPMENT

(continued)

The Group always maintains good employee relations and is committed to employee training and development. Professional training courses are offered to beauticians employed by the Group and its franchisees on a regular basis to promote and maintain the quality and consistency of the services provided.

In addition, the Group adopted a share option scheme on 11 March 2002, for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. The Directors may, at their discretion, invite any employee or director of the Group and any qualified person as set out in the scheme, to subscribe for shares. Up to the date of this document, no share option had been granted under the share option scheme.

FUTURE PLANS AND PROSPECTS

Looking ahead, the year 2004 will be a year full of opportunities and challenges. The Group will continue to develop new products and to expand its market coverage and to strengthen the recognition of its brand name in the Greater China region with the PRC market as its core business focus.

With the global economy in recovery, export of Asian economies will improve and domestic spending tends to be stronger, together with the emerge of middle class, the Group expects there will be a continual growth in consumer spending and tourism with steady increase in the demand of skin care products. Amidst such background, the Group's business will be benefited. On the other hand, competition is expected to further intensify following the accession into the World Trade Organisation of China. The marco-economic adjustment policy recently adopted by the PRC Government is targeted at industries with substantial spending in fixed assets. The management believes that the policy will be of minimal impact to the Group. With high brand awareness, extensive sales and distribution networks, customer loyalty which built up through the years, we are very confident of maintaining our leading market position in the Greater China region.

員工、培訓及發展 (續)

本集團與僱員一向維持良好合作關係，並且著重員工的培訓及發展。定期為集團聘用的美容師及加盟經營者提供專業培訓課程，以提昇及保證服務水平之質量及統一性。

此外，本集團已於二零零二年三月十一日採納購股權計劃，旨在回饋及激勵對本集團業務作出貢獻的具資格參與人士。董事可酌情邀請本集團任何僱員或董事及該計劃所載的任何具資格人士認購股份。截至本文件日期止，並無根據購股權計劃授出任何購股權。

未來計劃及前景

展望未來，二零零四年將是充滿機會和挑戰的一年。集團將繼續開發新產品，擴大集團市場領域，增強品牌於大中華地區的知名度，並以中國大陸市場作為集團業務核心。

由於全球經濟復甦，亞洲區經濟出口改善及內部消費意欲旺盛，加上中產階級的興起，集團相信消費及旅遊業將持續增長，護膚品需求將穩步上升，集團業務將大大得益。另一方面，隨著中國大陸加入世界貿易組織，市場競爭將會加劇。最近中國政府採取宏觀調控措施，主要是針對一些固定投資增長過急的行業，管理層估計對本集團之影響是輕微的。憑著我們品牌的知名度、強大經銷網絡、多年經營建立起來的顧客忠誠度，我們對保持大中華區市場的領先地位充滿信心。

Management Discussion and Analysis 管理層討論及分析

FUTURE PLANS AND PROSPECTS (continued)

We will continue with our multi-brand and multi-region development strategy with particular emphasis on the PRC market where most of the growth is expected in the near future. We have set a medium term target to increase our presence in the Greater China region by opening more beauty centres and dedicated counters in the next few years. The Group is now planning to encourage franchised stores to transform more Class-C NB beauty centres into either Class-B NB Salon SPA or Mini SPA. Such transformation is expected to be completed by the end of 2006.

In addition, we will continue to leverage on our research and development capability to diversify and increase our product range to better serve different segments of the market. Products to be launched in the coming year include our bio-tech based skin care products, body shaping underwear, body slimming nutritional products and skin care products for men.

Apart from organic growth, we will also explore co-operation or alliance opportunities with international players with a view to further strengthen our position in the region on the one hand and expand internationally on the other.

Through the relentless pursuit of excellence and support from our staff, franchisees as well as our customers, we are determined to become the leading researcher, manufacturer and distributor of quality skin care, beauty and aromatherapeutic products internationally.

未來計劃及前景(續)

我們將繼續著重於推廣集團的多元化品牌 and 多元化市場的策略，尤其集中發展預期將來增長最快的中國大陸市場。我們已制訂中期計劃目標，透過於未來數年開設更多的美容中心及專櫃，加強集團於大中華地區的市場地位。集團正有計劃地鼓勵加盟經營者將更多C級自然美專業美容中心轉型為B級自然美沙龍SPA或Mini SPA，預計二零零六年底前完成。

此外，我們將繼續利用集團的研發能力，多元化及不斷增加的產品種類，以滿足市場不同層面的需要。即將在來年推出市場的產品包括採用生物科技研製的護膚產品、女性整形內衣、瘦身營養品，以及男士保養品。

除集團內部增長外，我們將與國際業界發展合作夥伴及聯盟關係，藉此增強集團於區內及國際上的市場地位，有助集團於國際市場上發展。

集團持續不懈追求完美，加上集團員工、加盟經營者與客戶的支持，集團正銳意成為大中華，以至國際市場上最卓越的護膚品、彩粧品及芳香療法產品製造商及分銷商。