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## **NATURAL BEAUTY BIO-TECHNOLOGY LIMITED**

*(Incorporated in Cayman Islands with limited liability)*

### **CONNECTED TRANSACTION**

The Board announces that, on 1 July 2002, Beijing NB has entered into the Assets Entrusted Agreement with the Operator to entrust all management and operation rights of the Entrusted Assets over the Entrusted Period. The aggregated consideration for the Assets Entrusted Agreement amount to RMB21,020,000 (equivalent to approximately HK\$19,830,000). The consideration is payable by the Operator to Beijing NB in cash through 5 annual installments during the Entrusted Period.

In addition, Beijing NB and the Operator further agreed to enter into the Property Mortgage Agreement and the Trademark Licensing Agreement.

The Operator is a former director of Beijing NB (resigned on 15 September 2002) and will remain as a connected person of the Company for a period of 12 months after her resignation. The aggregate consideration payable by the Operator to Beijing NB amounted to approximately RMB2,107,759 (equivalent to approximately HK\$1,988,000) for the financial year ended 31 December 2002 and approximately RMB2,960,077 (equivalent to approximately HK\$2,793,000) for the period from 1 January 2003 to 14 September 2003. Accordingly, the transaction contemplated under the Assets Entrusted Agreement constitutes connected transaction for the Company under Rule 14.25(1) of the Listing Rules and are subject to the relevant disclosure requirements stipulated therein.

At the time of signing of the Assets Entrusted Agreement, the officers of the Company did not seek professional advice and were not aware that the transaction contemplated thereunder constituted a connected transaction for the Company. At the same time, the Company was overwhelmed by a tremendous amount of workload during the intervening period immediately before and after the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited on 28 March 2002. As a result of the overwhelming workload and the inadvertence of its officers, the Company failed to make prompt disclosure of the Assets Entrusted Agreement. The delayed disclosure of the Assets Entrusted Agreement constitutes a breach of Rule 14.25(1) of the Listing Rules. The Stock Exchange reserves the right to take appropriate action against the Company and its Directors.

## THE ASSETS ENTRUSTED AGREEMENT

### Parties and major information of the Assets Entrusted Agreement

- (1) The Assets Entruster: Beijing NB
- (2) The Assets Trustee: Ms. Wang On Cheung
- (3) The Guarantor: Ms. Wang On Cheung
- (4) The Entrusted Assets: all the underlying assets of the Natural Beauty spas situated at 北京市廣安門南街四十二號一、二、三、四樓全部 and 北京市豐台區方庄芳古園一區三十一號樓一、二樓全部 and operated by Beijing NB
- (5) The Entrusted Period: five years commencing from 2 July 2002 to 1 July 2007

Based on the PRC audited accounts of Beijing NB for the year 2002, its net loss after tax and extraordinary items amounts to RMB2,902,323, of which a net loss of approximately RMB2,830,091 can be attributed to the Entrusted Assets for the period from 2 July 2002 to 31 December 2002.

### Principal Terms of the Assets Entrusted Agreement

Pursuant to the Assets Entrusted Agreement, Beijing NB agreed to appoint the Operator, Ms. Wang On Cheung, to manage and operate the Entrusted Assets. The scope of operation includes the provision of spa and beauty services, the sale of beauty and skin care products under the Natural Beauty brand, the provision of beauty training courses and assisting Beijing NB with the development of franchise networks. The appointment of the Operator is effective for a period of 5 years from 2 July 2002 to 1 July 2007. After taking into account the product life cycles of most of the cosmetic equipments situated in the Natural Beauty spas and the average depreciation period of the Entrusted Assets, the Directors believe the Entrusted Period of 5 years is reasonable. During the term of the appointment, the Operator shall in each year prepay to Beijing NB an annual asset management fee for the following year in the amount of RMB4,204,000 (equivalent to approximately HK\$3,966,000) being 1/5 of the value of the Entrusted Assets. The value of the Entrusted Assets determined with reference to the audited net asset value of Beijing NB was RMB21,022,135 (equivalent to approximately HK\$19,832,203) as at 1 July 2002. The Operator shall be entitled to retain any profits generated by the Entrusted Assets under her management and operation during the Entrusted Period. On the other hand, the Operator shall be obligated to undertake any losses arising from the Entrusted Assets under her management and operation during the Entrusted Period.

### *Security Deposit*

As security for the Operator's obligations under the Assets Entrusted Agreement, the Operator shall deposit a security deposit with Beijing NB in an amount equivalent to the aggregate Annual Asset Management Fee payable by the Operator during the Entrusted Period. The Operator has paid 50% of the Security Deposit by cash upon signing of the Assets Entrusted Agreement. The remaining 50% of the Security Deposit was to be satisfied by way of a mortgage on the Operator's property. Pursuant to the terms of the Assets Entrusted Agreement, the Operator and Beijing NB shall enter into a Property Mortgage Agreement. In the event that the Operator shall fail to remit the full amount of the Annual Asset Management Fee to Beijing NB during the Entrusted Period,

Beijing NB shall be entitled to deduct the shortfall from the Security Deposit and thereafter the Operator shall be responsible to reinstate the Security Deposit to its original value. The parties are in the process of preparing the Property Mortgage Agreement and the Property Mortgage Agreement will be submitted to the relevant PRC authority for registration process.

The Operator shall be responsible for all expenses (including but not limited to rent, utilities and payroll), liabilities, damages, obligations, disputes arising out of the operation and management of the Entrusted Assets during the Entrusted Period and shall indemnify Beijing NB for all economic loss or damage to reputation as a result thereof. In addition, Beijing NB is entitled to deduct from the Security Deposit the said loss or damage. Since the execution of the Assets Entrusted Agreement, the Operator has been fulfilling her obligations under the agreement and no deduction has been made from the Security Deposit.

#### *Rights and Obligations of the Operator*

During the Entrusted Period, the Operator shall be entitled to the free use of the “NB Natural Beauty” and other related trademarks of the Group in the operation of the Natural Beauty spas. The Operator shall enter into a trademark licensing agreement with the Group and attend to all necessary registration formalities at the sole costs of the Operator. The parties are in the process of preparing the Trademark Licensing Agreement. The Company will not receive any consideration from this agreement, further announcement in respect of the Trademark Licensing Agreement will be made in compliance with the relevant provisions of the Listing rules if required.

The Assets Entrusted Agreement is irrevocable in nature. If the Operator shall breach the Assets Entrusted Agreement during the Entrusted Period, Beijing NB shall be entitled to repossess the Entrusted Assets and forfeit the Security Deposit.

The Operator shall not entrust, let or sell the Entrusted Assets to a third party without the consent of Beijing NB. In addition, each of the Operator and the Guarantor shall not, during the Entrusted Period and within a period of 3 years after the termination of the Assets Entrusted Agreement:

- a. directly or indirectly be engaged, employed by or otherwise interested in the same or similar business as that of Beijing NB or the Group within the PRC;
- b. directly or indirectly solicit, employ or assist any employees of the Group or directly or indirectly solicit or entice away any of the customers of the Group; and
- c. either on its own account or on behalf of others, carry on or be engaged in any other cosmetics or beauty services related business or participate in any associated distribution networks. In addition, neither the Operator nor the Guarantor shall refer any of the Group’s customers, members, students, franchisees or distributors to any other of the Group’s competitors.

Furthermore, neither the Operator nor the Guarantor shall at any time, make use of the name “NB”, “Natural Beauty” or other registered trademarks of the Group unless having obtained the consent of Beijing NB.

At the end of the Entrusted Period, the Operator shall account for and return all Entrusted Assets to Beijing NB. Upon compliance by the Operator of the terms of the Assets Entrusted Agreement, Beijing NB shall return the Security Deposit to the Operator and release the Operator from the obligations under the Property Mortgage Agreement.

During the Entrusted Period, the Guarantor shall guarantee the performance by the Operator of its obligations under the Assets Entrusted Agreement and the liabilities of the Operator and the Guarantor are joint and several.

### **Reasons for Entering into the Assets Entrusted Agreement**

The Directors consider that it will be beneficial for Beijing NB to enter into the Assets Entrusted Agreement because it can utilize the experience and expertise of the Operator over the management of the Entrusted Assets. At the same time, the Annual Asset Management Fee represents a stable source of income for the Group.

### **Consideration**

The aggregate consideration for the Assets Entrusted Agreement amounts to RMB21,020,000 (equivalent to approximately HK\$19,830,000) representing the five installments of Annual Asset Management Fee payable by the Operator in cash over the Entrusted Period. The consideration was negotiated on an arm's length basis and on normal commercial terms and is determined based on approximately 100% of the audited net asset value of Beijing NB as at 1 July 2002. As the Entrusted Assets represented the substantial part of Beijing NB's assets, the Directors (including the independent non-executive directors) believe that the basis of determination of the consideration is fair and reasonable and in the ordinary and usual course of business so far as shareholders of the Company are concerned.

### **Relationship between the Parties and Listing Rules Implications**

The Operator is a former director of Beijing NB (resigned on 15 September 2002) and will remain as a connected person of the Company for a period of 12 months after her resignation. The aggregate consideration payable by the Operator to Beijing NB amounted to approximately RMB2,107,759 (equivalent to approximately HK\$1,988,000) for the financial year ended 31 December 2002 and approximately RMB2,960,077 (equivalent to approximately HK\$2,793,000) for the period from 1 January 2003 to 14 September 2003. Accordingly, the transaction contemplated under the Assets Entrusted Agreement constitutes connected transaction for the Company under Rule 14.25(1) of the Listing Rules and are subject to the relevant disclosure requirements stipulated therein.

At the time of signing of the Assets Entrusted Agreement, the officers of the Company did not seek professional advice and were not aware that the transaction contemplated thereunder constituted a connected transaction for the Company. At the same time, the Company was overwhelmed by a tremendous amount of workload during the intervening period immediately before and after the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited on 28 March 2002. As a result of the overwhelming workload and the inadvertence of its officers, the Company failed to make prompt disclosure of the Assets Entrusted Agreement. The delayed disclosure of the Assets Entrusted Agreement constitutes a breach of Rule 14.25(1) of the Listing Rules. The Stock Exchange reserves the right to take appropriate action against the Company and its Directors.

**Terms used in this announcement:**

Annual Asset Management Fee	the annual asset management fee payable by the Operator to Beijing NB during the Entrusted Period, being 1/5 of the value of the Entrusted Assets
Assets Entrusted Agreement	the agreement entered into between the Operator and Beijing NB in relation to the management and operation of the Natural Beauty spas owned by Beijing NB
Beijing NB	Beijing Natural Beauty Cosmetics Company Limited, a PRC company, of which 81% equity interest is attributed to the Group
Board	board of Directors
Company	Natural Beauty Bio-Technology Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange of Hong Kong
Directors	the directors of the Company
Entrusted Assets	all the underlying assets of the Natural Beauty spas situated at 北京市廣安門南街四十二號一、二、三、四樓全部 and 北京市豐台區方庄芳古園一區三十一號樓一、二樓全部 and operated by Beijing NB
Entrusted Period	a period of 5 years from 2 July 2002 to 1 July 2007
Group	the Company and its subsidiaries
Guarantor	Ms. Wang On Cheung
Listing Rules	the Rules Governing the Listing of Securities on the main board of the Stock Exchange of Hong Kong Limited
Operator	Ms. Wang On Cheung
PRC	the People's Republic of China
Property Mortgage Agreement	the agreement to be entered into between the Operator and Beijing NB whereby the Operator shall mortgage its property in favour of Beijing NB as part of the Security Deposit
Security Deposit	a security deposit deposited by the Operator with Beijing NB in an amount equivalent to the aggregate Annual Asset Management Fee payable by the Operator during the Entrusted Period

Shareholders	shareholders of the Company
Signing Date	the date of signing of the Assets Entrusted Agreement by the Operator and Beijing NB
Trademark Licensing Agreement	the trademark licensing agreement to be entered into between the Group and the Operator

By order of the board  
**Natural Beauty Bio-Technology Limited**  
**Mr. Su Chien Cheng**  
*Executive Director*

Hong Kong, 30 April 2003

“Please also refer to the published version of this announcement in The Standard”.