

NB. 自然美

Natural Beauty

Bio-Technology Limited

自然美生物科技有限公司

annual report 2002

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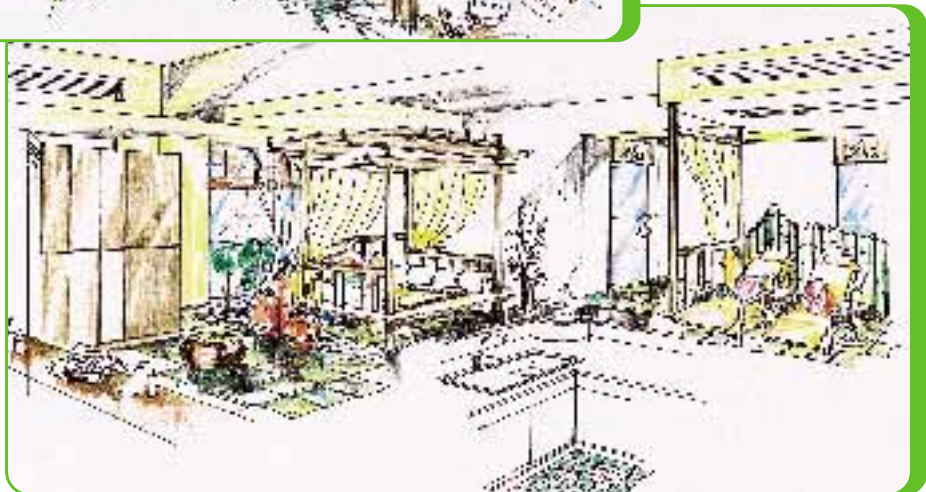
Corporate Profile

“NATURAL IS THE SOURCE OF BEAUTY”

Natural Beauty Bio-Technology Limited (“Natural Beauty” or the “Company”) is one of the leading researchers, manufacturers and distributors of quality skin care, beauty and aromatherapeutic products in the Greater China region. As at 31 December 2002, the Company has 2,266 distribution outlets in the Greater China region.

The Company is entrusted with the belief of “Natural is the source of beauty”. The Company’s self-developed products are marketed under the NB[®] or Bio-up brand names and are well known for its use of natural ingredients extracted from plants.

The ordinary shares of Natural Beauty (the “Shares”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 March 2002.



Corporate Information

BOARD OF DIRECTORS

Dr. Tsai Yen Yu
 (alias Dr. Tsai Yen Pin) (*Chairman*)
 Mr. Lee Ming Ta
 (alias Mr. Lee Ming Tah)
 Mr. Su Chien Cheng
 Ms. Su Sh Hsyu
 (*Non-executive Director*)
 Mr. Yeh Liang Fei
 (*Independent Non-executive Director*)
 Mrs. Chen Shieh Shu Chen
 (*Independent Non-executive Director*)

AUTHORISED REPRESENTATIVES

Mr. Lee Ming Ta
 (alias Mr. Lee Ming Tah)
 Mr. Su Chien Cheng

COMPANY SECRETARY

Lee Wai Kam, Hyman AHKSA, ACCA

MEMBERS OF THE AUDIT COMMITTEE

Mr. Yeh Liang Fei
 Mrs. Chen Shien Shu Chen

REGISTERED OFFICE

P. O. Box 309
 Ugland House
 South Church Street
 George Town
 Grand Cayman
 Cayman Islands
 British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

4th Floor, Manson House
 74-78 Nathan Road
 Kowloon
 Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
 22nd Floor, Prince's Building
 Central
 Hong Kong

LEGAL ADVISERS

Fong & Ng
In association with King & Wood (PRC lawyers)
and Goodmans
 Room 1101, 11th Floor
 9 Queen's Road Central
 Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
 Corporation Limited
 1 Queen's Road Central
 Hong Kong

Land Bank of Taiwan
 No. 76, Section 2, Tun Hua South Road
 Taipei
 Taiwan

United World Chinese Commercial Bank
 No. 32, Section 2, Tun Hua South Road
 Taipei
 Taiwan

Agricultural Bank of China
 Shanghai Branch
 3rd Floor, 26 Zhong Shan Dong Yi Road
 Shanghai
 The PRC

Bank of Communications
 Shanghai Branch, Zhabei Sub-branch
 211 Hengtong Road
 Shanghai
 The PRC

Shareholder Information

STOCK EXCHANGE LISTING

Main Board of The Stock Exchange of
Hong Kong Limited

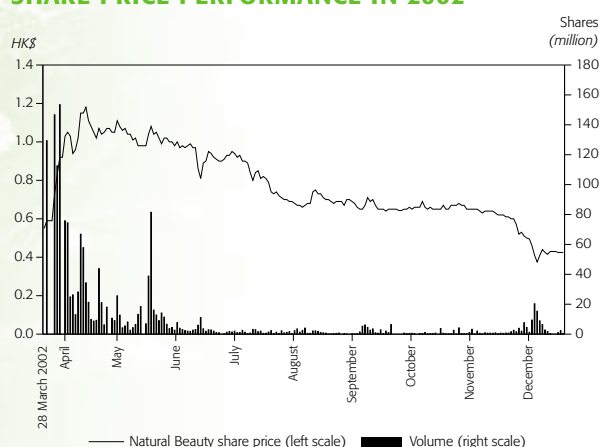
STOCK CODE

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SHARE INFORMATION

Shares outstanding: 2,000,000,000 Shares
Major shareholder: Dr. Tsai Yen Yu and family,
1,500,000,000 Shares
(75%)
Free float: 500,000,000 Shares (25%)

SHARE PRICE PERFORMANCE IN 2002



Source: Bloomberg

DIVIDEND POLICY

Subject to the financial performance of the Company, the Company expects that interim and final dividends will be paid in or around October and June of each financial year, respectively.

DIVIDEND PER SHARE

2002 Interim dividend	HK\$0.0075
2002 Final dividend	HK\$0.015
2002 Special dividend	HK\$0.005

FINANCIAL CALENDAR IN 2003

Announcement of 2002 results	23 April 2003
Last day to register for 2002 final and special dividends	26 May 2003
Book closure period	27-28 May 2003
Annual general meeting	29 May 2003

Announcement of 2003 interim results	September 2003
Financial year end	31 December

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Bank of Bermuda (Cayman) Limited
c/o The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11
P O Box HM 1020
Hamilton HM DX
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1901-5
19th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS

Shareholders can raise any enquiries or comments on the performance and future plans of the Company with the directors of the Company at the annual general meeting. The Company participated in various roadshows and conferences since its listing in March 2002, including:

Date	Organiser	Event
May 2002	UBS Warburg	Investor conference in Singapore
July 2002	Deutsche Bank	Investor conference in Singapore
September 2002	UBS Warburg	China Private Chips Conference in the United States
January 2003	UBS Warburg	Greater China Conference 2003 in Shanghai
February 2003	Deutsche Bank	China In & Out Conference in Shanghai

Financial and Operational Highlights

FINANCIAL HIGHLIGHTS

Results

	Year ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	306,278	254,566	205,514	199,548	185,432
Gross profit	219,502	190,746	161,900	156,597	139,466
Operating profit	85,060	79,883	77,149	74,413	63,236
Profit before taxation	87,028	82,182	81,407	79,980	68,810
Taxation	(21,891)	(12,464)	(11,330)	(12,917)	(8,859)
Profit after taxation	65,137	69,718	70,077	67,063	59,951
Minority interests	1,335	1,325	56	962	(227)
Profit attributable to shareholders	66,472	71,043	70,133	68,025	59,724

Assets and liabilities

	As at 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Non-current assets	402,725	388,587	356,433	316,329	287,319
Current assets	458,761	258,902	247,202	260,042	203,757
Total assets	861,486	647,489	603,635	576,371	491,076
Current liabilities	99,436	158,101	127,758	183,145	149,936
Non-current liabilities	7,598	6,776	6,665	6,080	4,856
Total liabilities	107,034	164,877	134,423	189,225	154,792
Minority interests	20,322	28,269	4,316	11,467	12,131
Net assets	734,130	454,343	464,896	375,679	324,153

Note:

The summary of the consolidated results, assets and liabilities of the Company and its subsidiaries (the "Group") for each of the years ended 31 December 1998, 1999 and 2000 have been extracted from the Company's prospectus dated 19 March 2002. The results of the Group for each of the years ended 31 December 2001 and 2002 and the assets and liabilities of the Group as at that date are those as set out on page 43 to 90 of the financial statements, respectively. The summary of the consolidated results, assets and liabilities of the Group includes the results, assets and liabilities of the Company and its subsidiaries as if the current structure of the Group has been in existence throughout the years ended 31 December 1998, 1999, 2000, 2001 and 2002 and is presented on the bases set out in Note 1 to the financial statements.

Financial and Operational Highlights

FINANCIAL HIGHLIGHTS (continued)

Per share data

	2002	2001
Shares in issue (shares)	2,000 million	1,500 million
Closing share price	HK\$0.425	n/a
Market capitalisation	HK\$850 million	n/a
Earnings per share	HK\$0.035	HK\$0.047 ⁽¹⁾
Dividend per share	HK\$0.0275	HK\$0.01148
Net asset value per share	HK\$0.37	HK\$0.30 ⁽¹⁾

Note:

- (1) Computed based on the pro forma weighted average number of 1,500,000,000 Shares in issue and issuable as at 31 December 2001.

Financial ratios

	2002	2001	2000	1999	1998
Gross profit margin ⁽¹⁾	71.7%	74.9%	78.8%	78.5%	75.2%
EBITDA margin ⁽²⁾	35.1%	37.2%	42.0%	41.7%	38.7%
Current ratio ⁽³⁾	4.6x	1.6x	n/a	n/a	n/a
Gearing ⁽⁴⁾	Cash positive	Cash positive	n/a	n/a	n/a
Return on shareholders' equity ⁽⁵⁾	9.1%	15.6%	n/a	n/a	n/a
Stock turnover days ⁽⁶⁾	222 days	301 days	n/a	n/a	n/a
Debtors turnover days ⁽⁷⁾	59 days	40 days	n/a	n/a	n/a
Dividend payout ratio ⁽⁸⁾	82.7%	32.3% ⁽⁹⁾	n/a	n/a	n/a

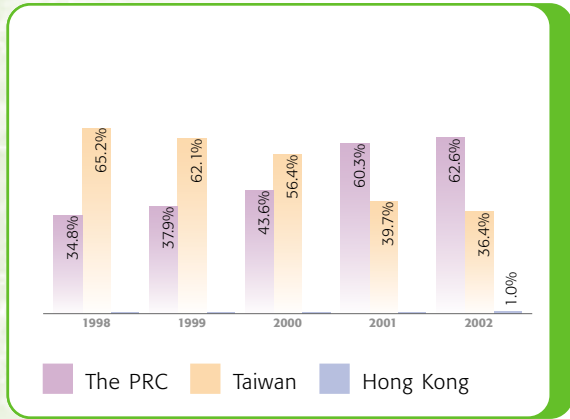
Notes:

- (1) Gross profit/Turnover
 (2) EBITDA (Earnings before net interest, tax, depreciation and amortisation)/Turnover
 (3) Current assets/Current liabilities
 (4) Net debt/Shareholders' equity
 (5) Profit attributable to shareholders/Shareholders' equity
 (6) Ending inventories/Cost of sales x 365 days
 (7) Year end trade debtors/Turnover x 365 days
 (8) Total dividends/Profit attributable to shareholders
 (9) Computed based on the final dividend declared by the Company subsequent to the listing of its Shares on the Stock Exchange on 28 March 2002

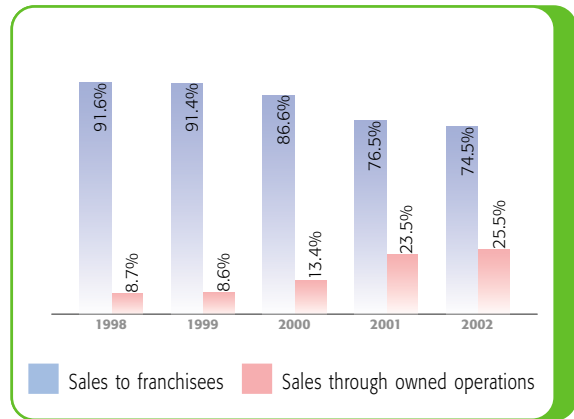
Financial and Operational Highlights

TURNOVER

By Geographical Locations

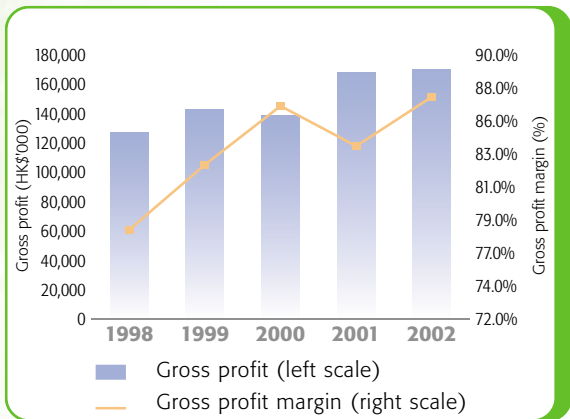


By Distribution Channels

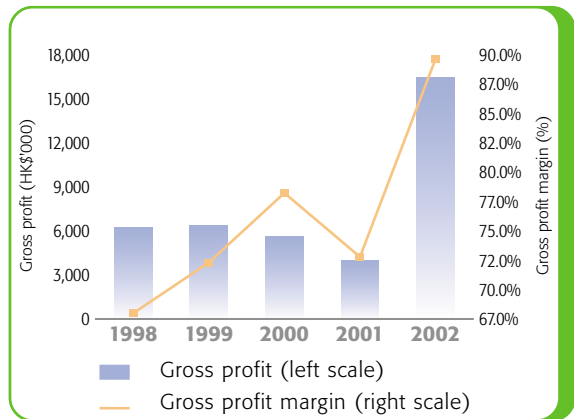


GROSS PROFIT BY MAJOR SEGMENTS

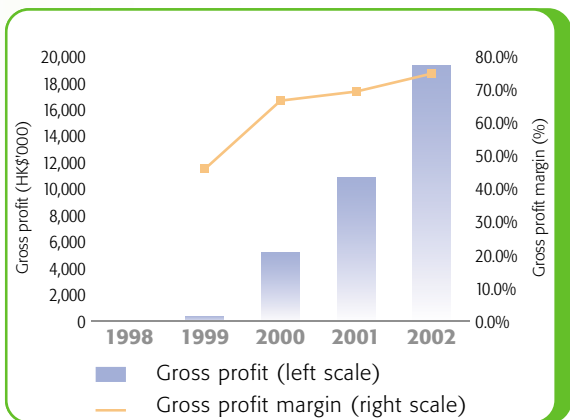
Skin Care Products



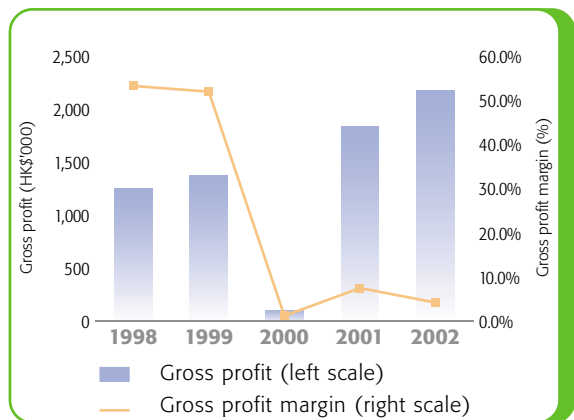
Beauty Products



Aromatherapeutic Products



Skin Treatment, Beauty and SPA Services

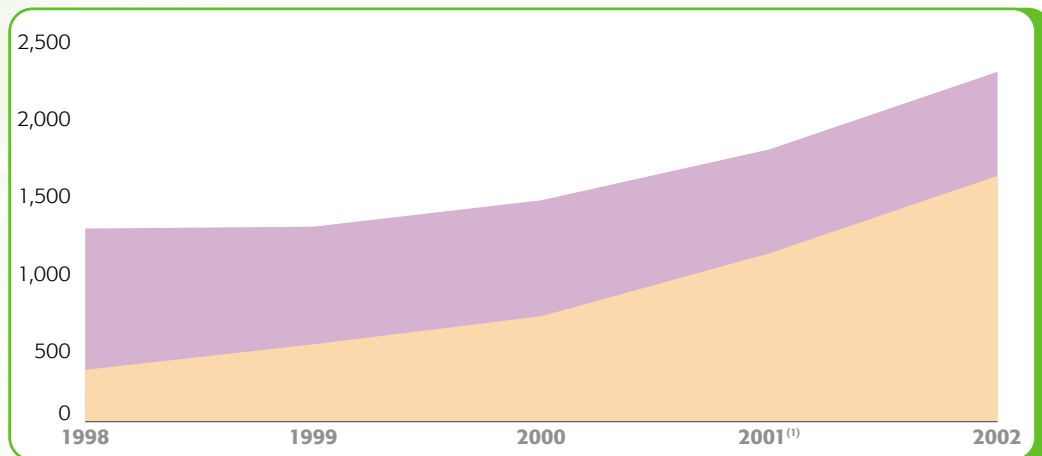


Financial and Operational Highlights

OPERATIONAL HIGHLIGHTS

	2002	2001 ⁽¹⁾	2000	1999	1998
Number of distribution outlets	2,266	1,761	1,432	1,261	1,269
Product sales per franchised stores (HK\$)	112,000	125,000	122,000	144,000	135,000
Product sales per owned beauty centres/dedicated counters (HK\$)	113,000	130,000	122,000	144,000	135,000
Service income per owned beauty centres (HK\$)	668,000	377,000	1,267,000	1,796,000	1,298,000

NUMBER OF DISTRIBUTION OUTLETS BY GEOGRAPHICAL LOCATIONS



■ The PPC (including Hong Kong)
 ■ Taiwan

Note:

(1) Computed based on the number of distribution outlets as at 31 October 2001.

Year 2002 in Review

JANUARY – MARCH 2002

- Shares of the Company were listed on the Main Board of the Stock Exchange
- Opened our first store (Natural Beauty SPA) in Hong Kong
- Operations expanded into Shenyang City, Liaoning Province, the PRC

APRIL – JUNE 2002

- The number of distribution outlets reached 2,000
- Spa services extended to male customers in the PRC

JULY – SEPTEMBER 2002

- Announced the acquisition of the remaining interest in 18 of its non-wholly owned subsidiaries in the PRC
- Announced the acquisition of Shanghai Full Beauty Cosmetics Co. Ltd.

OCTOBER – DECEMBER 2002

- Announced the acquisition of the remaining interest in another seven of its non-wholly owned subsidiaries in the PRC
- Oriental Beauty product line launched in Taiwan
- N&B skin care product line launched in the PRC
- Bio-up brand and its skin care product line launched in Taiwan

AWARDS

- The “Natural Beauty” brand was recognised as “2002 年度上海市名牌產品 (2002 Famous Brand of Shanghai)” by the Brand Management Office of Quality Supervision Bureau of Shanghai
- Our Shanghai subsidiary, Shanghai Natural Beauty Cosmetics Company Limited was awarded “全國產品質量售後服務雙達標先進企業 (Leading Enterprise with Double-qualified After-Sale Service for Nation-wide Products)” by Quality Inspection Association of China

Chairman's Statement



*Dr. Tsai Yen Yu,
Chairman*

Dear fellow shareholders,

RESULTS

Natural Beauty achieved a turnover of approximately HK\$306.3 million (2001: HK\$254.6 million) and an operating profit of approximately HK\$85.1 million (2001: HK\$79.9 million) for the year ended 31 December 2002 which represented an increase of approximately 20.3% and approximately 6.5% over the past year respectively. Both the PRC and Taiwan operations achieved strong growth in 2002 and have met our internal target. When compared to 2001, the operating profit for the PRC and Taiwan operations have increased by approximately 32.2% and approximately 24.5% respectively. Our business in Hong Kong, being its first year of operation in a new market, recorded an operating loss of approximately HK\$9.5 million in 2002. However, our Class-A Natural Beauty SPAs in Hong Kong have started to achieve cashflow breakeven on a monthly basis during the fourth quarter of 2002.

DIVIDENDS

In appreciation of the continual support of our shareholders, the board of Directors (the "Board") has, in addition to recommending a final dividend of HK\$0.015 per Share, recommended a special dividend of HK\$0.005 per Share in respect of the year ended 31 December 2002, subject to the approval by shareholders at the forthcoming annual general meeting.

Chairman's Statement

A CHALLENGING YEAR

Shares of the Company were listed on the Main Board of the Stock Exchange on 28 March 2002, a year when most of the world's economies were going through a difficult time. Against this testing condition, Natural Beauty achieved encouraging results in 2002. Our performance reflected the resilience of our Greater China businesses and our ability to generate healthy returns. In spite of the global economic downturn the strength of Natural Beauty enabled us to grow our operating income and to take opportunities to lay the foundations for our future expansion.

HISTORY AND BACKGROUND

Started from a humble beginning with a single beautician chair in Taipei some 30 years ago, today we have over 2,200 outlets located throughout the PRC, Taiwan and Hong Kong and are now one of the leading skin care product and service providers in this region.

A GROWING BUSINESS

As at 31 December 2002, the Company together with its subsidiaries (the "Group") operates 77 self-owned spas (Class-A and Class-B), 2,031 franchised spas (Class-B) and beauty salons (Class-C) and 158 dedicated counters in the Greater China region.

In China (including Hong Kong), we have increased the number of our distribution outlets from 1,089 at the end of 2001 to 1,593 at the end of 2002 and we have extended our reach to Shenyang City, Liaoning Province and Hong Kong. Of these 1,593 distribution outlets, 62 are self-owned spas in the form of Class-A and Class-B formats, 1,374 are franchised spas and salons in the form of Class-B and Class-C format and 157 are in the form of dedicated counters within department stores and shopping complexes. We were one of the first to introduce the facial treatment concept into the PRC market some 10 years ago and in 2000, we introduced the spa concept to the PRC market. We have since maintained our leading position in providing quality skin care services in China. In view of the improving standards of living and consumer awareness for quality products in the PRC, we opened our first premium Class-A Natural Beauty SPA in 2000 in Shanghai in order to cater for the growing high-income segment of the population.

In Taiwan, we have maintained the number of our distribution outlets at around the same level. Of these 673 distribution outlets, 15 are self-owned spas in the form of Class-A format, 657 are franchised spas and salons in the form of Class-B and Class-C formats and one in the form of dedicated counters. Whilst the number of distribution outlets in Taiwan has only increased by one store, turnover from the Taiwan segment has increased by approximately 12.2% to approximately HK\$111.5 million. This is a result of effective marketing efforts of the Group and the launch of new product lines in the second half of 2002.

Chairman's Statement

A GROWING BUSINESS (continued)

Year 2002 was an important year for our operations in Hong Kong as it was the first time we set foot in the Hong Kong spa sector by opening our first Class-A Natural Beauty SPA and the total number of our outlets in Hong Kong quickly expanded to three before the end of last year. Despite only its first year of operation, our Class-A Natural Beauty SPAs have started to achieve cashflow breakeven on a monthly basis during the fourth quarter of 2002. Our spas in Hong Kong have recently been rated as the "Number 1 SPA" in Hong Kong, out of a total of 16 spa operators being rated, by 星島出版 (Sing Tao Publishing), a leading publication group in Hong Kong.

In 2002, we have also extended our services to male customers in the Class-A Natural Beauty SPA located within the Four Seasons Hotel in Shanghai (previously, it was only offered in Taiwan), and subsequently in 2003 to a Class-B NB Salon in Hong Kong. We are currently planning to extend such services to more locations in the region.

In addition, we have made several major decisions during the year, providing a strong foundation for our future growth:

1. We have acquired the minority interests of 25 non-wholly owned subsidiaries of the Group (the "PRC Subsidiaries") in order to further enhance the operations (especially financial management) of the 25 PRC Subsidiaries that served as the regional vehicles of the Group to manage our self-owned and franchised beauty centers in the PRC. Through this arrangement, the Group was able to restructure the costing structure of its distribution and therefore, improving the product sales margin of the Group.
2. In 2002, we have established over 500 new distribution outlets, and the total number of distribution outlets reached 2,266 at year end. We will continue to expand our distribution network in the Greater China region and expect the total number of our distribution outlets to exceed 5,000 by the end of 2006.
3. With a view to increasing product sales of the Group, the Group has started to set up sales counters in the existing distribution outlets i.e. "Shop-within-Shop". In addition, the Group has diversified the distribution network by introducing a new distribution concept called "Mini SPA" that cater for the mass market. Furthermore, the Group has worked with franchisees to transform Class-C NB Beauty Salon into Class-B NB Salon SPA in order to alleviate corporate image and enhance product sales. We believe that such conversion can increase the product sales capability of the franchised outlets thus resulting in higher product sales by the Group. At the end of 2002, the Group has a total of 891 Class-A Natural Beauty SPA, Class-B NB Salon SPA and Mini SPA. Going forward, the Group will continue to convert the remaining 1,217 Class-C NB Beauty Salon into either to Class-B NB Salon SPA or Mini SPA.

Chairman's Statement

A GROWING BUSINESS (continued)

4. We are committed to enhance profitability through active expansion of distribution network and implementation of effective cost control measures. The Group has already formulated various measures to streamline the cost, including entering into assets entrustment agreements to entrust the management and operation of certain assets to trustees. This will not only reduce our capital risk, but also provide a stable income to the Group.

OUR PRODUCTS

At Natural Beauty, we are very proud of our traditions of developing our own products with only the finest and natural materials extracted from plants. Our relentless pursuit of developing the highest quality products specially formulated for delicate skins and are particularly suitable for oriental complexion resulted in our continuous improvement in our existing products and the introduction of new products.

We have diversified our product range to cater for the needs of different customers. Through our three main product groups (namely, skin care products, beauty products and aromatherapeutic products) which, altogether has over 1,000 different products, our products are able to reach different types of consumers effectively.

During the year, the Group has continued to focus on research and development of new products thus allowing the Group to launch three new product lines to target younger generations and are suitable for sales in retail outlets, including the Bio-Up skin care series products which are made of natural plant-extracted ingredients imported from Australia; the Oriental Beauty skin care series products which are made of natural aromatic essential oils ingredients imported from France; and the N&B skin care series which are made from Natural Beauty's France natural plant-extracted ingredients, totalling over 150 new products. With an enriched product mix, the Group has successfully increased its presence in the mass market and younger customer segments. The Group aims to introduce over 100 new products to the market in 2003.

Chairman's Statement

CORPORATE GOVERNANCE

Already a leading provider of skin care products and services in the Greater China region, we further strengthened our leading position in this sector by transforming a 20-year old privately-held company into a publicly listed company in Hong Kong on 28 March 2002. It was a steep learning curve for all of us at Natural Beauty but we have managed it well. In order to further strengthen our corporate governance and transform Natural Beauty into a truly international corporation, we have established two management committees in February 2003 responsible for our PRC and Taiwan operations respectively. The committees are responsible for the formulation of business plans and strategies, subject to the Board's approval. Each management committees is made up of 10 senior management staff from various departments including directors of the Company. The PRC management committee is headed by myself and Mr. Lee Ming Ta and our Taiwan management committee is headed by Mr. Su Chien Cheng. In order to incentivise the members of the management committee, a portion of their monthly salary, ranging from 15% to 50% depending on the position held and contributions made, are directly linked to the sales performance of the Company. Members of the management committees are scheduled to meet regularly on a monthly basis. With the establishment of the management team, I will be able to focus more on research & development as well as training of our staff as well as the public, which I firmly believe is the two key elements of our success.

CONTRIBUTION TO THE COMMUNITY

During the year, we have sponsored a television programme called 激情創業 produced by CCTV in conjunction with the Ministry of Labour and Social Security. The programme provided business start-up opportunities and platform to unemployed workers. The programme attracted much community attention and received high acclaims from government officials. Other PRC enterprises were encouraged to learn from Natural Beauty and to work with the government to resolve social problems through the utilisation of social resources. The programme has also generated interests from potential franchisees to join our Company.

OUTLOOK

In 2003, we will continue to develop new products and to expand our market reach and brand name recognition in the Greater China region with the PRC market remain as a core focus.

To cope with the growing demand of our products, we have, subsequent to the year end date, acquired approximately 200 acres of land in Shanghai for the purpose of building our third production facility. We expect production in this new factory to begin in 2004.

In order to diversify our distribution network further and to provide additional channel of distribution other than through our spa and salon network, dedicated counters will also be part of our focus for bringing our products to the consumers in the near future and we intend to open approximately 70 new counters in 2003.

Chairman's Statement

OUTLOOK (continued)

The Group intends to penetrate into the international market in the future and will continue to actively explore alliance opportunities with international players from Europe, the United States of America and Japan, for the purposes of strengthening development capability, exchange of sales network and to jointly develop new products to enrich sales products, and to improve the Group's of overall profitability.

Year 2003 is expected to be a challenging year for Asia, especially when consumer and tourism spending has been negatively affected by the recent outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the region. Competition is expected to intensify following China and Taiwan's accession into the World Trade Organisation. However, with high recognitions for our brands, extensive distribution networks through our self-owned and franchised spas and dedicated counters, customer loyalty which built up through the years and our franchisees whom most of them were experienced beauticians trained by Natural Beauty, we are very confident of our leading position in this region but, rest assure, we will not get complacency, we will be alert of any change to our operating environment and continue to work diligently to maintain growth in this extremely competitive operating environment.

APPRECIATION

I thank all my staff for their support and contributions which made the year under review a success. My appreciation also goes to our shareholders and the Group's customers, business partners and franchisees for their support during the year.

Dr. Tsai Yen Yu
Chairman

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover increased by approximately 20.3% or HK\$51.7 million to approximately HK\$306.3 million for the year ended 31 December 2002 reflecting continued growth in product sales and service income as a result of increased number of new distribution outlets in the Greater China region.

In the PRC, turnover increased by approximately 23.5% or HK\$36.4 million to approximately HK\$191.7 million. The increase is primarily due to the increase in the number of distribution outlets to 1,590 as at 31 December 2002, representing an increase of 501 distribution outlets.

In Taiwan, turnover increased by approximately 12.2% or HK\$12.2 million to approximately HK\$111.5 million. The growth in Taiwan was a result of increased marketing efforts and the increased in sales through selling to agencies of television direct sales. In addition, the launch of new product lines in Taiwan also contributed to the overall growth.



The Company has opened its first beauty centre in Hong Kong in 2002 and as at 31 December 2002, the Company has a total of three beauty centres in Hong Kong of which two are Class-A Natural Beauty SPA and one is Class-B Natural Beauty Salon SPA. In Hong Kong, the Company reported a turnover of approximately HK\$3.1 million for the year.

Turnover by geographical region

	2002		2001	
	HK\$'000	%	HK\$'000	%
The PRC	191,697	62.6%	155,256	61.0%
Taiwan	111,465	36.4%	99,310	39.0%
Hong Kong	3,116	1.0%	—	—
	306,278	100.0%	254,566	100.0%

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Products: The Group manufactures and sells three main types of products, namely skin care products, beauty products and aromatherapeutic products under the NB[®] and Bio-up brand names. Sales of products are primarily made through beauty centres and dedicated counters and are the Group's key revenue contributor, accounting for approximately 83.2% of the Group's turnover for the year ended 31 December 2002 (2001: 90.4%). Gross profit margin of products increased to 85.3% (2001: 82.1%). The increase in both turnover generated from sale of products and gross profit margin was mainly attributable to the increase in distribution outlets, improved production logistics, enhanced inventory control system, quality research and development of the products and effective marketing efforts. During the year, the Group has launched three new product lines namely Bio-up, Oriental Beauty and N&B. Turnover of product sales per franchised store decreased by approximately 10.4% to approximately HK\$112,000 per store for the year ended 31 December 2002 compared to approximately HK\$125,000 in 2001 whilst turnover of product sales per owned stores decreased



by approximately 13.1% to approximately HK\$113,000 for the year ended 31 December 2002 compared to approximately HK\$130,000 in 2001. The decrease was due to the introduction of new mass market product lines which has a lower average selling price and the increase in the number of distribution outlets which lead to higher competition among distribution outlets located within the same cities.

Services: The Group provides skin treatments, beauty and spa services through its self-owned and operated Class-A beauty centres, namely Natural Beauty SPA. Service income are generated from owned beauty centres only as the Group does not share any service income generated in the franchised beauty centres with franchisees under the current franchise programme. Income from these services increased by approximately 109.7% to approximately HK\$51.5 million. The Group expects demand for skin treatment, beauty and spa services in the PRC to continue to grow as the economy of the PRC continues to prosper. On a per store basis, turnover increased by approximately 77.2% to approximately HK\$668,000 for the year ended 31 December 2002 compared to approximately HK\$377,000 in 2001. The increase was due to significant expansion in the number of distribution outlets and higher consumer awareness of the newly opened beauty centres and spa.

Turnover by activities

	2002 HK\$'000	%	2001 HK\$'000	%
Products	254,810	83.2%	230,021	90.4%
Services	51,468	16.8%	24,545	9.6%
	<u>306,278</u>	<u>100.0%</u>	<u>254,566</u>	<u>100.0%</u>

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

For the purpose of further enhancing the operations (especially financial management) of the 25 non-wholly owned subsidiaries of the Group (the "PRC Subsidiaries") that served as the regional vehicles of the Group to manage our self-owned and franchised beauty centres in the PRC, the Group seized the golden opportunity to acquire the minority interests in these PRC Subsidiaries in 2002, details of which are set out in the circulars of the Company dated 23 October 2002 and 18 November 2002. In addition, in order to continue to leverage on the experience of the respective local management in the operation and management of certain of the PRC Subsidiaries, the Group has, in 2002, entered into a total of six assets entrustment agreements with relevant local management (the "Entrustees") to entrust the management and operation of certain assets of the PRC Subsidiaries for a period of five years. Pursuant to the assets entrustment agreements, such Entrustees would bear the risks and rewards from the operation of these entrusted assets and will pay an annual entrustment fee to the Group. The Group will continue to negotiate with interested potential parties with a view to entering into assets entrustment agreements of a similar nature when opportunity arises as the Company believes it will be beneficial for the Company to have the opportunity to rely on the experience and expertise of these trustees over the management of the entrusted assets.

During the year ended 31 December 2002, the Group opened a total of 22 new self-owned beauty centres and 26 new self-owned dedicated counters thereby incurring capital expenditures of approximately HK\$20.7 million. The Group's distribution costs as a percentage of turnover increased from approximately 29.7% in 2001 to approximately 32.7% in 2002. The Group's administrative expenses as a percentage of turnover has also increased from approximately 16.1% in 2001 to approximately 19.3% in 2002. The increase in the distribution costs and administrative expenses as a percentage of turnover was due to higher staff costs and corporate office expenses as a result of the Company's listing on the main board of the Stock Exchange as well as the acquisitions of the 25 PRC Subsidiaries.

Tax expenses net of financial refunds for the year amounted to approximately HK\$21.9 million (2001: HK\$12.5 million), representing an increase of approximately 75.6% over 2001. The increase in net tax expenses was mainly attributable to the decrease in financial refunds received by the Company. For 2002, the relevant finance bureau has informed the Group that certain subsidiaries are entitled to certain preferential treatments in 2002, however, since such refund is only recorded as a deduction of income tax expense when it has been received or received subsequent to the balance sheet date. Up to the date of this report, only approximately HK\$7.1 million of financial refunds have been recorded. Financial refunds received from the local finance bureau in respect of financial year 2001 was approximately HK\$23.2 million.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

As a result of the increase in distribution costs and administrative expenses due to the expansion of the number of distribution outlets and the establishment of corporate office in Hong Kong, and the reduction of financial refunds from the local finance bureau of the PRC, the net profit of the Group decreased slightly by approximately 6.4% or HK\$4.6 million to approximately HK\$66.5 million for the year ended 31 December 2002. Geographically, both the PRC and Taiwan operations achieved strong growth in 2002 and have met our internal target. Compare to 2001, operating profit for the PRC and Taiwan operations have increased by approximately 32.2% and 24.5% respectively. Our business in Hong Kong, being its first year of operation in a new market, recorded an operating loss of approximately HK\$9.5 million in 2002.

Financial ratios review

	Formula used	2002	2001
Gross profit margin	Gross profit/Turnover	71.7%	74.9%
EBITDA margin	EBITDA/Turnover	35.1%	37.2%
Current ratio	Current assets/Current liabilities	4.6x	1.6x
Gearing	Net debt/Shareholders' equity	Cash positive	Cash positive
Return on shareholders' equity	Profit attributable to shareholders/ Shareholders' equity	9.1%	15.6%
Stock turnover days	Ending inventories/Cost of sales x 365 days	222 days	301 days
Debtors turnover days	Year end trade debtors/Turnover x 365 days	59 days	40 days
Dividend payout ratio	Total dividends/Profit attributable to shareholders	82.7%	32.3%

Gross profit margin ratio and EBITDA margin ratio for the year decreased slightly to approximately 71.7% and approximately 35.1% mainly due to a reduction in the margin for service income as a result of increased promotional activities offered by the newly established self-owned beauty centres during the year.

The Company raised net proceeds of approximately HK\$250 million from its initial public offerings in March 2002 of which approximately HK\$180 million was not yet utilised as at 31 December 2002. This has caused the current ratio of the Company to increase from 1.6 times to 4.6 times. During the year, the Company has continued its prudent financial management policy. As at 31 December 2002, the Group has a positive net cash balance of approximately HK\$216.8 million.

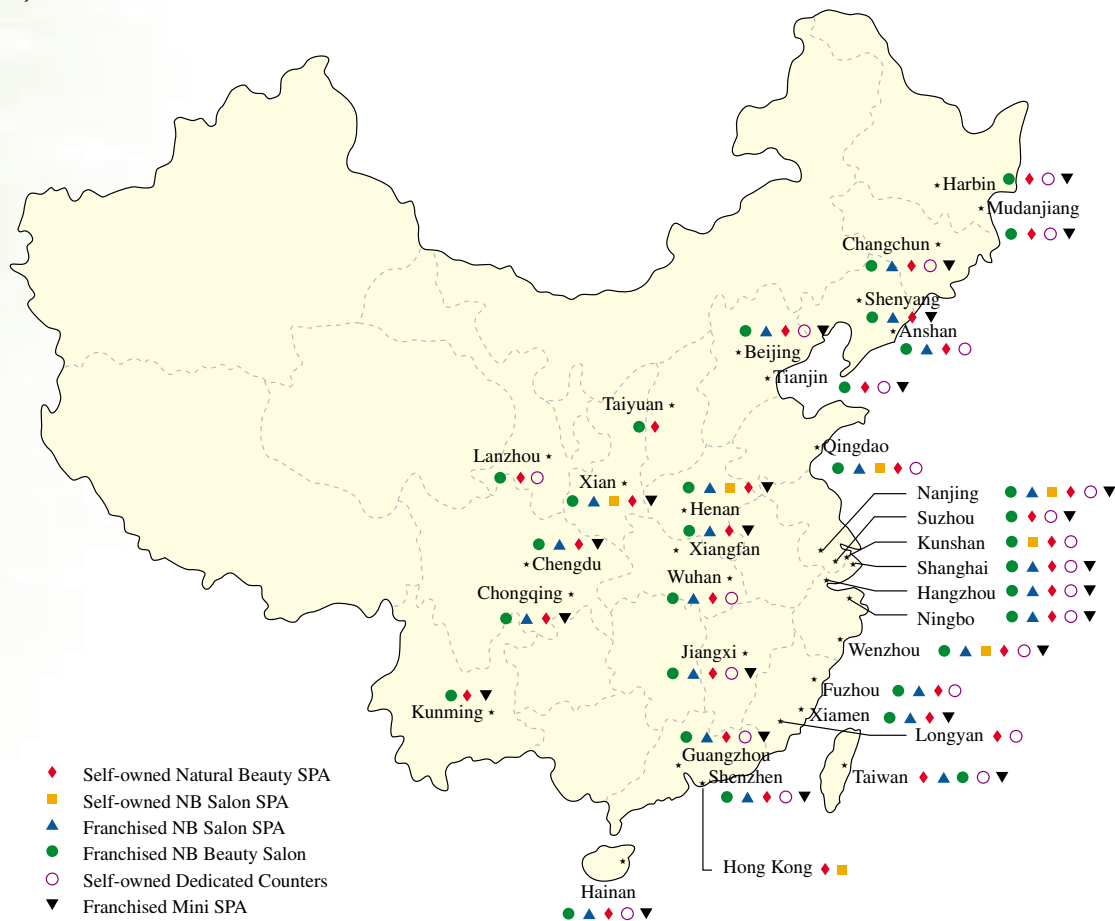
Stock turnover days has reduced substantially from 301 days in 2001 to 222 days in 2002. This improvement was mainly the result of a reduction in distribution lead time after the acquisition of the 25 PRC Subsidiaries, which acted as the distributors of the Company in different parts of the PRC in the past. Thus lower stock balance is required to be kept in our warehouses throughout the PRC. Debtors turnover days increased from 40 days in 2001 to 59 days in 2002. The increase was mainly due to an increase in trade receivables arising from television direct sales and year end credit sales. If such amounts were excluded, the debtors turnover days of the Group would be approximately 34 days, slightly lower than 2001.

Management Discussion and Analysis

SALES AND DISTRIBUTION CHANNELS

In 2002, the Group launched franchise programme for Mini SPAs. Mini SPA is a retail counter occupying around 30 m² to 100 m² of floor area that sells lower-end NB[®] products and offers certain body and facial treatment services to customers. Mini SPAs are designed to target second and third tier cities in the PRC and to cater for the mass market. As at the end of 2002, the Group has four types of beauty centres, namely Natural Beauty SPA, NB Salon SPA, NB Beauty Salon and Mini SPA, each offering a specific range of products and services under unique ambience targeting at different customer groups. During the year, the Group has worked with franchisees to transform Class-C NB Beauty Salon into Class-B NB Salon SPA with a view to increasing retail space for sale of Natural Beauty products. During 2002, 234 Class-C NB Beauty Salons were successfully transformed into Class-B NB Salon SPA. A substantial portion of the transformation costs were borne by the franchisees. The Group will offer franchisees of Class-C NB Beauty Salons to transform its store to either Class-B NB Salon SPA or Mini SPA format at their own choice and such transformation is expected to be completed by 2006.

As at 31 December 2002, the number of distribution outlets of Natural Beauty was 2,266 (2001⁽¹⁾: 1,761).



Note:

(1) As at 31 October 2001.

Management Discussion and Analysis

SALES AND DISTRIBUTION CHANNELS (continued)

		2002	2001 ⁽¹⁾	2000	1999	1998
Natural Beauty SPA	– Owned	63	44	6	–	–
NB Salon SPA	– Owned	14	11	–	–	–
	– Franchised	654	123	–	–	–
		<u>668</u>	<u>134</u>	<u>–</u>	<u>–</u>	<u>–</u>
NB Beauty Salon	– Owned	–	–	–	1	1
	– Franchised	1,217	1,451	1,333	1,167	1,177
		<u>1,217</u>	<u>1,451</u>	<u>1,333</u>	<u>1,168</u>	<u>1,178</u>
Mini SPA	– Franchised	160	–	–	–	–
Dedicated counters	– Owned	158	132	93	93	91
Total	– Owned	235	187	99	94	92
	– Franchised	2,031	1,574	1,333	1,167	1,177
		<u>2,266</u>	<u>1,761</u>	<u>1,432</u>	<u>1,261</u>	<u>1,269</u>
Geographically located in:						
The PRC	– Owned	216	177	94	94	92
	– Franchised	1,374	912	588	406	263
		<u>1,590</u>	<u>1,089</u>	<u>682</u>	<u>500</u>	<u>355</u>
Taiwan	– Owned	16	10	5	–	–
	– Franchised	657	662	745	761	914
		<u>673</u>	<u>672</u>	<u>750</u>	<u>761</u>	<u>914</u>
Hong Kong	– Owned	3	–	–	–	–

Note (1): As at 31 October 2001

PRODUCTS AND SERVICES

We pride ourselves that all our products are made of natural ingredients extracted from plants imported from various countries including France, Italy, Germany and the United States of America. These products are specially formulated for delicate skins and are particularly suitable for oriental complexion. Currently we have a number of product lines tailored for different segments of the market. In addition, through our research and development efforts, we were able to launch new products continuously. In 2002, we have launched three new product line with over 150 new products.

PRODUCTION AND QUALITY CONTROL

To ensure the quality of our products meet the highest standard, all of our products are produced in-house by our two ISO9002 accredited production facilities located in Shanghai and Taipei. Our facilities produced over 1,000 different kind of skin care products under the NB[®] and Bio-up brand names. Current utilisation rate of both the Shanghai and Taipei production facilities are 77.1% (2001: 63.2%) and 70.8% (2001: 70.0%) respectively.

RESEARCH AND DEVELOPMENT

With regards to research and development, our continued efforts have bear fruit. We have broadened our product range by successfully launching three new product lines in 2002 namely the Bio-Up skin care series, the Oriental Beauty skin care series, and N&B skin care series.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL MANAGEMENT

During the year, the Company issued and sold 500 million new Shares at the time of its listing, raising net proceeds of approximately HK\$250 million for the Company. Cashflow from operating activities for 2002 was approximately HK\$66.6 million (2001: HK\$134.8 million). The drop was primarily due to substantial increase in trade receivables as a result of trade receivables arising from sales through agencies of television direct sales and year end credit sales. As at 31 December 2002, the Group had bank balances and cash of approximately HK\$216.8 million and trading securities (which are mainly capital guaranteed bond funds) of approximately HK\$88.1 million with no external bank borrowing or any charge on assets.

In terms of gearing, as at each of 31 December 2001 and 2002, the Group had a negative gearing level (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 the current assets divided by the current liabilities) as at 31 December 2002 was approximately 4.6 times (2001: approximately 1.6 times).

As at 31 December 2002, the Group had no material contingent liabilities, outstanding contracted capital commitments was approximately HK\$8.8 million in respect of the acquisitions of additional interests in some of its subsidiaries. With the cash and short term securities in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

USE OF PROCEEDS

From 28 March 2002 to 31 December 2002, the Group has invested approximately HK\$69.9 million mainly in the establishment of spas, marketing and promotion campaign, research and development, expansion of production facilities and the enhancement of computer system which were in accordance with the plans as set out in the Company's prospectus dated 19 March 2002. The Company will continue to use the unutilised proceeds in accordance with its plans as set out in the Company's prospectus dated 19 March 2002.

TREASURY POLICIES AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group derives most of its revenue from the PRC and Taiwan (denominated in Renminbi and New Taiwan Dollar) as its operations are mainly concentrated in these two areas. As at 31 December 2002, approximately 69.3% of the Group's bank balances and cash was denominated in Renminbi, while approximately 29.5% was denominated in United States Dollars and Hong Kong Dollars.

The Group maintains a conservative approach on foreign exchange exposure management. Periodic review of the Group's exposure to foreign exchange risk will be conducted and derivative financial instruments may be used to hedge against such risks when necessary.

Management Discussion and Analysis

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2002, the Group had a total of 1,518 employees of which 1,287 were based in the PRC, 185 in Taiwan and 46 in Hong Kong. Total remuneration for the year ended 31 December 2002 was approximately HK\$48.6 million, including retirement benefits cost of HK\$5.3 million. Remuneration packages of the Group are maintained at a competitive level to attract, retain and motivate high performing staff and are reviewed on a periodical basis.

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

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

FUTURE PLANS AND PROSPECTS

In 2003, we will continue to develop new products and to expand our market reach and brand name recognition in the Greater China region with the PRC market as our core focus. Year 2003 is expected to be a challenging year – competition is expected to further intensify following China and Taiwan's accession into the World Trade Organisation and consumer and tourism spending is expected to be negatively affected by the recent war in Iraq and more importantly, the outbreak of SARS in the region.

However, with the leadership from our management team and the highly experienced board of directors, we are confident that we have the ability to navigate through the current situation and progress to our goals. In 2003, we will continue to work diligently to maintain growth in this extremely competitive operating environment and have formulated plans to strengthen our leading position and to set the foundation for future growth.

In particular, 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. By the end of 2006, we expect the total number of our distribution outlets in the Great China region to exceed 5,000. 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.

Management Discussion and Analysis

FUTURE PLANS AND PROSPECTS (continued)

Going forward, the Group will, as and when opportunity arises, enter into negotiation with interested potential parties on the entrustment of the operation and management of certain assets to these parties. The management of the Company believes it will be beneficial for the Company to have the opportunity to rely on the experience and expertise of these potential parties (which need to possess both financial capability and expertise in management spas operations) over the management of the entrusted assets. This arrangement will enable the Group to receive a stable entrustment fee income (which will be determined based on an agreed rate of return on the value of the entrusted assets) and to continue to earn income from products sales whilst at the same time transfer the risks and rewards from the operation of these entrusted assets to the potential trustees. The Group expects the assets entrustment arrangements to be similar to the six assets entrustment agreements that the Group has entered into in 2002 which results has proven to be encouraging.

Besides 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 supports from our member of staffs, 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.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Tsai Yen Yu (alias Tsai Yen Pin) ("Dr Tsai"), aged 55, is the founder and the Chairman of the Group. Dr. Tsai founded the Group in 1972 and is responsible for the Group's overall management, strategic planning and development, and formulation of company policies and business strategy. Dr. Tsai is a renowned professional beauty expert in Taiwan as well as in the PRC and has been engaged in the beauty and skin care industry over 30 years. In these years, Dr. Tsai has been awarded numerous honours, positions and prizes including:

- Top 20 most influential businesswomen in Taiwan
- Honorary Doctor of Commerce, Dewey University, the United States of America (the "US")
- Outstanding Entrepreneurs of Taiwan awarded by Taiwan Women's Business Association
- Chairwoman of Industrial Cooperation Program in Tamkang University, Taiwan
- Chairwoman of Taiwan Beautician Association, Sessions VI
- Vice Chairwoman of Taiwan Golden Trademark Association, Session II
- Principal supervisor of Taiwan Intellectual Property Protection Association
- Principal consultant in National Beauty Parlor Association of the PRC
- Honorary Principal of Chungming High School in the PRC
- "Bai Yu Lan" Award by the Shanghai City Government

Lee Ming Ta (alias Lee Ming Tah), aged 55, the husband of Dr. Tsai, is an executive director of the Group and is responsible for the general administration and internal management of the Group. Prior to joining the Group in 1993, Mr. Lee had worked for various financial institutions at senior management level for over 10 years in corporate management and staff training. Mr. Lee graduated in Fengchia University in Taiwan with a bachelor degree in Banking and Insurance.

Su Chien Cheng, aged 31, the son of Dr. Tsai, is an executive director of the Group and Vice President of Natural Beauty Cosmetics Company Limited ("NB Taiwan"). He is responsible for the financial management and sales and marketing of the Group. Mr. Su graduated from the University of Westminster with a master degree of business administration and is also a doctorate candidate of the Shanghai University of Finance and Economics of the PRC. He joined the Group in 1999.

Profile of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Su Sh Hsyu, aged 29, the daughter of Dr. Tsai, is a non-executive director of the Group. Ms. Su graduated from the London School of Economics with a master degree of Science in Industrial Relations and Personnel Management, Industrial Relation and Human Resources Management and is a doctorate candidate of the Teachers College Columbia University in the City of New York, the US. Ms. Su has been actively engaged in the marketing and business development of the Group in Taiwan and the PRC during the period from 1998 and 2000. She was appointed as a Director in 2001 and is responsible for advising the Group in respect of the strategic planning and development.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Yeh Liang Fei, aged 71, worked in the police force of Taiwan for more than 40 years. Mr. Yeh held senior positions in several police bureaus in Taiwan. After his retirement from the police force, Mr. Yeh was appointed the honorary President of Ta Feng Securities Co., Ltd. in Taiwan. He is very experienced in administration and human resources management in large organisations. Mr. Yeh graduated from Central Police Officer College of Taiwan. He was appointed as the Company's independent non-executive director in March 2002.

Chen Shieh Shu Chen, aged 48, is a director of Taipei Australia International Investment Pty. Ltd., a company engaged in real estate development in Australia. Mrs. Chen is also a director of Ho Yin Garments Manufacturing Co., Ltd in Taiwan. She has been a director of Taipei Australia International Investment Pty. Ltd. for over 10 years and is experienced in property investment, general management and global trading. Mrs. Chen graduated from Soochow University of Taiwan with a bachelor degree of Arts in History. She was appointed as the Company's independent non-executive director in March 2002.

SENIOR MANAGEMENT

Lee Yung Chiu, aged 62, is the general manager of NB Shanghai and is responsible for the Group's operations, business planning, human resources and the business operations of dedicated counters in the PRC. Mr. Lee graduated from Taiwan Nat, Taiwan University with a bachelor degree of Foreign Language and Literature. Mr. Lee is highly experienced and has over 40 years of experience in the beauty and cosmetics sector in the Greater China Region. Prior to joining the Group in 2002, he was the Chief Executive Officer of Taiwan Shiseido Cosmetics Corp. Ltd. and has held key positions in various organisations including the director of Taiwan Area Cosmetics and Toiletries Association, director of Republic of China Consumer Association and manager of Taiwan Cosmetics and Underwear One Price Friendship Association.

Lin Fu Shui, aged 53 is the Chief Executive Officer of NB Taiwan and is responsible for the Group's operations, business planning and human resources in Taiwan. Mr. Lin holds a bachelor's degree in Economics from Tunghai University of Taiwan and has over 30 years of experience in corporate management in Taiwan. Prior to joining the Group in 2002, Mr. Lin has served senior management positions in various enterprises, including Family Mart Co. Ltd. and Pao Long International Co. Ltd..

Profile of Directors and Senior Management

SENIOR MANAGEMENT (continued)

Niu Jia Lin, aged 46, is the General Manager of Natural Beauty Bio-Technology (Hong Kong) Company Limited and is responsible for the overall management of the Group's operations and business development in Hong Kong. Ms. Niu worked in management positions of banks, international trading firms and fitness clubs in the US, Hong Kong and the PRC for many years. Ms. Niu has been working with the Group since 2000 as the assistant to Chairman and currently in charge of the Group's business development and market networking.

Yan Yi Ling, aged 42, is the Head of accounting and finance for NB Shanghai and is responsible for the financial management and accounting function of the Group's PRC operation. Ms. Yan holds a master degree in Statistics from West Virginia University in the US. Prior to joining the Group in 2000, Ms. Yan worked in various commercial bank holding management position and has over 10 years of working experience in internal control and business administration.

Willie Shen, aged 53, is the Head of Sales/Business Development of the NB Shanghai and is responsible for the overall management, planning and operations of the group's franchise program, the business development for franchise business and the supervision of franchise stores. Ms Shen graduated from Shanghai Municipal Staff Sparetime College and has over 30 years of experience in the manufacturing and retail industry. Ms. Shen joined the group in 1995.

Chiang Tze Chun, aged 35, is Head of Brand Operation and Dedicated Counters of NB Shanghai and is responsible for the business development, administration of the dedicated counters operations of in the PRC and the planning of marketing and promotional activities for dedicated counters in the PRC. Prior to joining the Group in 2002, she was the brand operation manager for Procter & Gamble and SKII and has over 10 years of experience in the beauty and skincare industry in the Greater China Region.

Qu Jia Qiang, aged 47, is the Consultant of Shanghai Natural Beauty Cosmetics Co. Ltd. ("NB Shanghai") and is responsible for the overall advisory of the Group's PRC operations. Mr. Qu has previously worked for the PRC Provincial Government specialising in economic planning and corporate management. Mr. Qu joined the Group in 1998.

Lin Hin Ju, aged 41, is the head of Sales for NB Taiwan and is responsible for the planning, development and operation of the franchise programme in Taiwan, the supervision of the dedicated counters sales activities, marketing and promotional activities in Taiwan. Ms Lin holds a Diploma in Apparel Design from Shih Chien University of Taiwan and has studied Business Management in Tamkang University of Taiwan and Linguistic Science in Michigan State University. Prior to joining the Group in 1993, Mr. Lin worked in a German cosmetics group and The Body Shop Taiwan.

Profile of Directors and Senior Management

SENIOR MANAGEMENT (continued)

Wang Pang Chi, aged 50, is the Head of administrative division for the Group and is responsible for daily overall administration and operation of the Group. Mr. Wang studied banking management in a business college at Tamsui in Taiwan and has accumulated many years of experience in corporate management. Mr. Wang joined the Group in 1981.

Fong Chiu Hsia, aged 48, is the head of accounting and finance for NB Taiwan and is responsible for the financial management and accounting function of the Group's Taiwan Business. Prior to joining the Group in 1980, Ms. Feng worked in an international accounting firm and has served management positions in a number of corporations in the region and has over 30 years of experience in accounting, finance and auditing.

COMPANY SECRETARY

Lee Wai Kam, Hyman, aged 29, is the company secretary and the financial controller of the Company and is responsible for financial planning and monitoring. He graduated from the Hong Kong Polytechnic University with bachelor's degree in accountancy and received a diploma in legal studies from the University of Hong Kong. He is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants. Prior to joining the Company in July 2002, he held senior financial positions in a Hong Kong listed company and a multi-national company and worked for an international accounting firm for more than seven years.

Corporate Governance

The overall management of the Company's business rests with the Board.

The Board currently comprises three executive directors and three non-executive directors, two of whom are independent non-executive directors. Full Board meeting have been held five times in 2002 to discuss, amongst others, the interim and annual results of the Company.

MANAGEMENT COMMITTEES

Subsequent to the year end, the Company has established two management committees in February 2003 responsible for the daily operation of our PRC and Taiwan businesses respectively. The committees are responsible for the formulation (subject to the Board's approval) and execution of business plans and strategies. Each management committees is made up of 10 senior management staff from various departments including directors. The PRC management committee is headed by Dr. Tsai and Mr. Lee Ming Ta and our Taiwan management committee is headed by Mr. Su Chien Cheng. Members of the management committees are scheduled to meet regularly on a monthly basis.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 11 March 2002 with written terms and with reference to guidance published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2002.

The Audit Committee comprised of all the independent non-executive Directors and has met five times in 2002. The Audit Committee has met to review the accounts of the Group for the year ended 31 December 2002 prior to recommending them to the Board for approval.

SHAREHOLDERS

The Board and senior management recognise their responsibility to represent the interests of the shareholders of the Company and to maximise shareholders' value. The Company's annual general meeting provides a good opportunity for communication between the Board and the shareholders and for the Board to meet private shareholders. All ordinary shares of the Company have equal voting rights and all shareholders are encouraged to participate in the annual general meeting. A notice of annual general meeting and related papers are required to be sent to shareholders at 21 days prior to the meeting.

CODE OF BEST PRACTICE

The Company is committed to maintain high corporate governance practices and has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Directors' Report

The directors of Natural Beauty (the "Directors") are pleased to present their report together with the audited financial statements of Natural Beauty and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are (a) manufacture and sale of skin care, beauty and aromatherapeutic products and (b) provision of beauty treatments, spa services and skin care consulting and training. Other activities and particulars of the Group's subsidiaries are set out in Note 1 to the accounts.

SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2002 are set out in Note 14 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated profit and loss account on page 43.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by geographical location of customers for the year ended 31 December 2002 is set out in Note 3 to the accounts.

DIVIDENDS

An interim dividend of HK\$0.0075 per Share was paid to shareholders on 31 October 2002 and the Board has resolved to recommend the payment of a final dividend of HK\$0.015 per Share and a special dividend of HK\$0.005 per Share in respect of the year ended 31 December 2002, subject to the approval by shareholders at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 May 2003 to 28 May 2003, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the final and special dividends, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 26 May 2003.

BANK BORROWINGS

As at 31 December 2002, the Group did not have any external bank borrowings.

Directors' Report

RESERVES

Details of the movements in the reserves of the Group during the year are set out in Note 25 to the accounts.

SHARE CAPITAL

Details of the movement in share capital of the Group are set out in Note 24 to the accounts.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's Shares were listed on the Stock Exchange on 28 March 2002. Save as disclosed herein, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

NB Taiwan held the following office buildings as investment properties as of 31 December 2002:

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

Details of the movements in property, plant and equipment and investment properties are set out in Note 13 to the accounts.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws in the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, the Group's largest customer accounted for approximately 2.7% of the Group's turnover, and the aggregate amount of turnover attributable to the Group's five largest customers represented approximately 7.7% of the Group's total turnover.

The largest supplier for the year ended 31 December 2002 accounted for approximately 3.7% of the Group's total purchases (excluding purchases of a capital nature), and the combined total of the five largest suppliers accounted for approximately 11.9% of the Group's total purchases for the year.

At no time during the year have the Directors, their associates or any shareholder of the Company who to the knowledge of the Directors owns more than 5% of the Company's issued share capital had any interests in these major customers and suppliers.

Directors' Report

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors:

Dr. Tsai Yen Yu (alias Dr. Tsai Yen Pin)
Mr. Lee Ming Ta (alias Mr. Lee Ming Tah)
Mr. Su Chien Cheng

Non-executive Director:

Ms. Su Sh Hsyu

Independent non-executive Directors:

Mr. Yeh Liang Fei
Mrs. Chen Shieh Shu Chen

In accordance with the Company's articles of association, Dr. Tsai Yen Yu and Ms. Su Sh Hsyn will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Each of the non-executive Director and the independent non-executive Directors is currently appointed for a term of three years commencing from 11 March 2002.

The biographical details of the Directors and the senior management of the Group are set out on pages 25 to 28.

DIRECTORS' SERVICE CONTRACTS

Each of Dr. Tsai Yen Yu ("Dr. Tsai"), Mr. Lee Ming Ta ("Mr. Lee"), Mr. Su Chien Cheng ("Mr. Su"), Ms. Su Sh Hsyu ("Ms. Su"), Mr. Yeh Liang Fei and Mrs. Chen Shieh Shu Chen, being all the executive and non-executive Directors, has entered into a Director's service contract dated 11 March 2002 with the Company under which they have been appointed to act as executive Directors (in the case of Dr. Tsai, Mr. Lee and Mr. Su) and non-executive directors (in the case of Ms. Su, Mr. Yeh Liang Fei and Mrs. Chen Shieh Shu Chen) for an initial term of three years commencing from 11 March 2002 and shall continue thereafter until terminated by either party giving to the other not less than three calendar months' notice in writing. The initial aggregate annual remuneration pursuant to such service contracts is HK\$2,840,000 (as to HK\$1,000,000 to Dr. Tsai, HK\$700,000 to Mr. Lee, HK\$600,000 to Mr. Su, HK\$500,000 to Ms. Su, HK\$20,000 to Mr. Yeh Liang Fei and HK\$20,000 to Mrs. Chen Shieh Shu Chen) subject to an annual increment at the discretion of the Directors of not more than 10% of the annual remuneration immediately prior to such increase.

Directors' Report

DIRECTORS' SERVICE CONTRACTS (continued)

Each of Dr. Tsai, Mr. Lee, Mr. Su and Ms. Su is also entitled to a management bonus. The aggregate amount of the bonuses payable to these executive Directors and the non-executive Director will not exceed 15% of the audited consolidated profit after taxation and minority interests but before extraordinary items of the Group in respect of that financial year of the Company.

Save as disclosed above, no Director has any unexpired service contract which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the Directors and the chief executive of the Company in the equity securities of the Company and its associated corporations (within the meaning of the then Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") (which has been replaced by the Securities and Futures Ordinance effective on 1 April 2003)) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Director	Number of Shares				Number of share options
	Personal interests	Family interests	Corporate interests	Other interests	
Dr. Tsai	–	–	1,500,000,000 (Note 1)	–	–
Mr. Su	–	–	225,000,000 (Note 2)	–	–
Ms. Su	–	–	225,000,000 (Note 2)	–	–
Mr. Lee	–	1,500,000,000 (Note 1)	–	–	–

Notes:

- (1) The two references to 1,500,000,000 Shares relate to the same block of Shares. Such Shares are held by Efficient Market Investments Limited which is beneficially owned as to 70% by Dr. Tsai through Knightcote Enterprises Limited.
- (2) The two references to 225,000,000 Shares are included in the 1,500,000,000 Shares held by Efficient Market Investments Limited which Mr. Su and Ms. Su each have 15% beneficial interest through Knightcote Enterprises Limited.

Other than as disclosed above, none of the Directors, the chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 December 2002.

SHARE OPTION SCHEME/DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

Pursuant to the Company's share option scheme approved by a resolution of the shareholders of the Company dated 11 March 2002 (the "Share Option Scheme"), the Company may grant options to full-time employees (including executive or non-executive Directors) of the Company or its subsidiaries to subscribe for the shares at a consideration of HK\$1 for each lot of share options granted. The Share Option Scheme will remain valid for a period of 10 years commencing on 11 March 2002. Options granted may be exercised during such period as would be determined by the board of directors of the Company (the "Board") and notified to each grantee upon grant of the option, but in any event not later than 10 years from the date of grant of the option. The subscription price for Shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; and (b) the average of the 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 of the relevant option.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall not, when aggregated with any shares subject to any other schemes, exceed 10% of the number of Shares in issue as at the date of approval of the scheme (the "Scheme Mandate Limit"). The Company may seek approval by its shareholders in general meeting for "refreshing" the 10% limit under the scheme. However, the total number of Shares which may be issued upon exercise of all options to be granted under all of the schemes of the Company (or its subsidiary) under the limit as "refreshed" must not exceed 10% of the Shares in issue as at the date of approval of the limit. Options previously granted under the scheme (including those outstanding, cancelled, lapsed in accordance with the scheme or exercised options) will not be counted for the purpose of calculating the limit as "refreshed".

The Company may grant share options to specified participants over and above the Scheme Mandate Limit or the refreshed Scheme Mandate Limit referred to above subject to shareholders' approval in general meetings and the issue of a circular.

The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company (or the subsidiary) must not exceed 30% of the relevant class of securities of the Company (or the subsidiary) in issue from time to time. No options may be granted under any schemes of the Company (or the subsidiary) if this will result in the limit being exceeded.

Directors' Report

SHARE OPTION SCHEME/DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

(continued)

The total number of Shares issued and to be issued upon exercise of the options granted to a participant of the Share Option Scheme (including both exercised and outstanding options) in any 12-month period up to the date of grant to each participant shall not exceed 1% of the Shares in issue, and any further grant of options in excess of such limit shall be approved by shareholders in general meeting with such participant and his associates abstaining from voting. The Company must also send a circular to its shareholders.

No option had been granted by the Company under the Share Option Scheme since its adoption.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate and neither the Directors, supervisors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had a beneficial interest of 10% or more in the issued share capital of the Company as at 31 December 2002:

Name	Note	Number of ordinary shares	Percentage of the Company's issued share capital
Efficient Market Investments Limited ("Efficient Market")	1	1,500,000,000	75.00%
Knightcote Enterprises Limited ("Knightcote")	2	1,500,000,000	75.00%
Dr. Tsai	3	1,500,000,000	75.00%
Mr. Su	4	225,000,000	11.25%
Ms. Su	5	225,000,000	11.25%

Notes:

1. Efficient Market is beneficially owned by Knightcote.
2. Knightcote is beneficially owned by Dr. Tsai as to 70%, Mr. Su as to 15% and Ms. Su as to 15%.
3. These shares are attributable to Dr. Tsai in respect of her 70% interest in Knightcote.
4. These shares are attributable to Mr. Su in respect of his 15% interest in Knightcote.
5. These shares are attributable to Ms. Su in respect of her 15% interest in Knightcote.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in Notes 12 and 28 to the accounts, no Director had a significant beneficial interest, either direct or indirect, in any contracts of significance to the business of the Group to which the Company or any of its holding companies or subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, no Directors is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined by the Listing Rules, other than those businesses of which the directors of the Company have been appointed as directors to represent the interests of the Company and/or the Group.

MANAGEMENT CONTRACT

Save as disclosed in the section headed "Financial review" under Management Discussion and Analysis and "Connected Transactions" under Directors' Report of this annual report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONNECTED TRANSACTIONS

Details of the connected transactions that are required to be disclosed for the year ended 31 December 2002 are set out in Notes 12, 14 and 28 to the accounts, their respective details were set out in the section headed "Connected Transactions" of the prospectus of the Company dated 19 March 2002. Save as disclosed therein, the following transactions would constitute connected transactions, as defined in the Listing Rules.

- (1) Shanghai Natural Beauty Sanlian Cosmetics Company Limited ("NB Sanlian"), a subsidiary of the Group, has entered into distribution agreements with each of its 25 non-wholly owned subsidiaries in the PRC (the "PRC Subsidiaries") on 31 March 2001 for the sales of the products manufactured by the Group to the PRC Subsidiaries. These transactions are entered into on normal commercial terms and in the ordinary and usual course of business, and are fair and reasonable and in the interests of the shareholders of the Group as a whole.

These transactions, upon listing of the Shares on the Stock Exchange, constitute continuing connected transactions under Chapter 14 of the Listing Rules and may require full disclosure by way of press announcements and, subject to the value of the transactions, prior approval by independent shareholders of the Company in general meeting. However, since the continuing connected transactions will be conducted in the normal course of business of the relevant members of the Group on a regular basis and on normal commercial terms, the Directors consider that strict compliance with the full disclosure requirement by way of press announcements would be impractical and unduly burdensome for the Company.

CONNECTED TRANSACTIONS (continued)

(1) (continued)

Accordingly, the Company has applied to the Stock Exchange for waivers from strict compliance with the said full disclosure requirements for these non-exempted continuing connected transactions for a period of three financial years ending 31 December 2004 subject to the conditions, among others, that the respective consideration of the continuing connected transactions for each of the 25 PRC Subsidiaries of NB Sanlian does not exceed their respective limits on any financial year as follows. The limits ("Caps") below are based on the historical sales records of NB Sanlian to each of the 25 PRC Subsidiaries, the details were set out in the section headed "Continuing Connected Transactions" on pages 104 and 105 of the prospectus of the Company dated 19 March 2002.

However, the Company respectively announced on 18 September, 8 and 28 October 2002 and issued the circulars on 23 October and 18 November 2002 that NB Sanlian entered into sale and purchase agreements with minority shareholders of each of the 25 PRC Subsidiaries to acquire the minority shareholders' interests of the 25 PRC Subsidiaries representing interests in the 25 PRC Subsidiaries ranging from 10% to 39% (the "Acquisitions"). According to the sale and purchase agreements, the vendors will not share the results of the 25 PRC Subsidiaries starting from 1 July 2002 and the details of corresponding accounting treatment are set out in Note 14 to the accounts. As a result, in the Directors' point of view, the transactions between NB Sanlian and the 25 PRC Subsidiaries entered into on 31 March 2001 are not subject to any disclosure or shareholders approval requirements as connected transactions in pursuant to Rule 14.24(4) of the Listing Rules with effect from 1 July 2002. In this respect, the actual sales records of NB Sanlian to each of the 25 PRC Subsidiaries for the relevant period from 1 January 2002 to 30 June 2002 are set out in the table below:

Subsidiaries	Caps HK\$'000	Actual sales records	
		Actual sales records for the relevant period from 1 January 2002 to 30 June 2002 HK\$'000	Actual sales records for the year ended 31 December 2002 (for reference purpose only) HK\$'000
Wu Han Natural Beauty Cultural Development Co., Ltd.	10,000	1,084	4,463
Ning Bo Hai Shu Natural Beauty Cosmetics Co., Ltd.	10,000	819	2,902
Wen Zhou Natural Beauty Cosmetics Co., Ltd.	8,178	1,168	4,406
Hai Nan Natural Beauty Cosmetics Co., Ltd.	5,778	634	1,880
Jiangxi Natural Beauty Sanlian Cosmetics Co., Ltd.	7,212	251	1,462

Directors' Report

CONNECTED TRANSACTIONS (continued)

(1) (continued)

Subsidiaries	Caps HK\$'000	Actual sales records for the relevant period from 1 January 2002 to 30 June 2002	Actual sales records for the year ended 31 December 2002 (for reference purpose only)
		HK\$'000	HK\$'000
Nanjing Natural Beauty Cosmetics Co., Ltd.	7,101	751	2,325
Kun Shan Natural Beauty Sanlian Cosmetics Co., Ltd.	3,861	472	1,148
Haerbin Sanlian Natural Beauty Cosmetics Co., Ltd.	5,410	272	1,410
Shenzhen Natural Beauty Cosmetics Co., Ltd.	10,000	3,012	10,128
Xi An Natural Beauty Mingyu Cosmetics Co., Ltd.	10,000	1,139	3,763
Cheng Du Natural Beauty Cosmetics Co., Ltd.	10,000	960	3,893
Beijing Natural Beauty Cosmetics Co., Ltd.	10,000	6,428	14,194
Qingdao Natural Beauty Ornaments Co., Ltd.	6,794	874	2,515
Henan Natural Beauty Cosmetics Co., Ltd.	6,919	1,022	2,931
Tianjin Natural Beauty Cosmetics Co., Ltd.	6,672	505	1,549
Su Zhou Natural Beauty Cosmetics Co., Ltd.	5,228	1,146	2,983
Lan Zhou Natural Beauty Cosmetic Co., Ltd.	1,397	179	448
Chang Chun Natural Beauty Cosmetics Co., Ltd.	5,167	536	1,625
Taiyuan Natural Beauty Cosmetics Co., Ltd.	2,977	261	361
Anshan Natural Beauty Cosmetics Co., Ltd.	10,000	1,094	1,740
Mudanjiang Natural Beauty Cosmetics Co., Ltd.	2,312	305	1,110
Fuzhou Natural Beauty Cosmetics Co., Ltd.	4,506	468	1,205
Long Yan Natural Beauty Cosmetics Co., Ltd.	1,532	102	179
Xiang Fan Natural Beauty Cosmetics Co., Ltd.	4,874	616	2,226
Kunming Natural Beauty Cosmetics Co., Ltd.	1,411	230	891

The respective consideration of the continuing connected transactions for each of the 25 PRC Subsidiaries of NB Sanlian did not exceed their respective Caps during the relevant time in 2002.

Directors' Report

CONNECTED TRANSACTIONS (continued)

(1) (continued)

The Board (including the independent non-executive Directors) confirmed that the continuing connected transactions are on normal commercial terms in the ordinary and usual course of business of all of the companies concerned throughout the year ended 31 December 2002 and in accordance with the relevant distribution agreements governing them on terms that are fair and reasonable and in the best interests of the independent shareholders of the Company as a whole. Further, the respective aggregate consideration of the continuing connected transactions for each of the 25 PRC Subsidiaries does not exceed their respective Caps in the circumstances described above. The auditors of the Company has also provided a letter to the board of Directors (with a copy to the Stock Exchange) confirming that:

- (i) the continuing connected transactions have received the approval of the Board;
- (ii) the continuing connected transactions have been entered into in accordance with the relevant distribution agreements governing the transactions; and
- (iii) the respective aggregate consideration in respect of the continuing connected transactions for each of the 25 PRC Subsidiaries of NB Sanlian have not exceeded their respective Caps in the circumstances described above.

- (2) On 2 July 2002, Beijing Natural Beauty Cosmetics Company Limited ("NB Beijing"), a subsidiary of the Company, has entered into an assets entrustment agreement with Ms. Wang On Cheung (the "Operator"). Pursuant to the assets entrustment agreement, NB Beijing has agreed to appoint the Operator to manage and operate its entire assets and liabilities (the "Entrusted Assets"). The scope of operation includes the entire business of NB Beijing, which contain 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 NB Beijing with the development of franchise networks. The appointment of the Operator is effective for a period of five years from 2 July 2002 to 1 July 2007 (the "Entrusted Period"). During the term of the appointment over the Entrusted Period, the Operator shall in each year pay to NB Beijing an annual asset entrustment fee (the "Annual Asset Entrustment Fee") equivalent to RMB4,204,000, it was determined with reference to the net asset value of NB Beijing 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 bear any losses, excluding the depreciation of operating assets, arising from the Entrusted Assets under her management and operation during the Entrusted Period. As security for the Operator's obligations under the assets entrustment agreement, the Operator shall deposit a security deposit (the "Security Deposit") with NB Beijing in an amount equivalent to the aggregate Annual Asset Entrustment Fee payable by the Operator during the Entrusted Period. The Operator was a director of NB Beijing on the date of signing the assets entrusted agreement, but she has resigned as director of NB Beijing on 15 September 2002. Therefore, the Operator is a connected person under the Listing Rules. Accordingly, the transaction constitutes a connected transaction for the Company under Chapter 14 of the Listing Rules and that is required to be disclosed herein. Details of the transaction are set out in Note 14 to the accounts.

Directors' Report

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in Note 23 to the accounts.

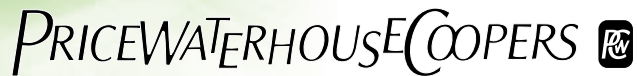
AUDITORS

Following the combination of the Mainland China and Hong Kong practices of Arthur Andersen and PricewaterhouseCoopers from 1 July 2002, Arthur Andersen resigned as auditors of the Company and was succeeded by PricewaterhouseCoopers.

PricewaterhouseCoopers, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Dr. Tsai Yen Yu
Chairman

Hong Kong
23 April 2003



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
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AUDITORS' REPORT TO THE SHAREHOLDERS OF NATURAL BEAUTY BIO-TECHNOLOGY LIMITED

(Incorporated in Cayman Islands with limited liability)

We have audited the accounts on pages 43 to 90 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong,
23 April 2003

Consolidated Profit and Loss Account

For the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	3	306,278	254,566
Cost of sales		<u>(86,776)</u>	<u>(63,820)</u>
Gross profit		219,502	190,746
Other revenues	3	28,397	6,359
Distribution costs		<u>(100,118)</u>	<u>(75,707)</u>
Administrative expenses		<u>(59,190)</u>	<u>(40,987)</u>
Other operating expenses		<u>(3,531)</u>	<u>(528)</u>
Operating profit	4	85,060	79,883
Finance costs	5	<u>(477)</u>	<u>(791)</u>
Income from trading securities		2,445	3,017
Share of profit of an associated company		<u>–</u>	<u>73</u>
Profit before taxation		87,028	82,182
Taxation	6	<u>(21,891)</u>	<u>(12,464)</u>
Profit after taxation		65,137	69,718
Minority interests		<u>1,335</u>	<u>1,325</u>
Profit attributable to shareholders	7	<u>66,472</u>	<u>71,043</u>
Dividends	8	<u>55,000</u>	<u>62,638</u>
Basic earnings per share	9	<u>HK\$0.035</u>	<u>HK\$0.047</u>

Consolidated Balance Sheet

As at 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Non current assets			
Intangible assets	12	16,466	5,461
Property, plant and equipment	13	362,186	377,660
Interests in an associated company	15	942	–
Non-trading securities	16	11,282	4,446
Deferred tax assets	17	806	1,020
Other assets	18	11,043	–
		<u>402,725</u>	<u>388,587</u>
Current assets			
Inventories	19	52,718	52,674
Trade and other receivables	20	101,132	64,368
Trading securities	21	88,133	65,750
Bank balances and cash	26(d)	216,778	76,110
		<u>458,761</u>	<u>258,902</u>
Current liabilities			
Trade and other payables	22	82,813	135,211
Deferred income		5,320	–
Taxation payable		11,303	20,778
Short-term bank loans		–	2,112
		<u>99,436</u>	<u>158,101</u>
Net current assets		<u>359,325</u>	<u>100,801</u>
Total assets less current liabilities		<u>762,050</u>	<u>489,388</u>
Non-current liabilities			
Retirement benefit obligations	23	7,598	6,776
Minority interests		<u>20,322</u>	<u>28,269</u>
		<u>734,130</u>	<u>454,343</u>

Consolidated Balance Sheet

As at 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Financed by:			
Capital and reserves			
Share capital	24	200,000	286,328
Reserves	25	415,938	62,403
Retained earnings			
Proposed dividend		40,000	22,960
Others		78,192	82,652
		<hr/>	<hr/>
Shareholders' funds		734,130	454,343

Approved by the Board of Directors on 23 April 2003.

Dr. Tsai Yen Yu
Director

Mr. Lee Ming Ta
Director

Balance Sheet

As at 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Investments in subsidiaries	14	286,328	—
Non-trading securities	16	6,786	—
		<u>293,114</u>	<u>—</u>
Current assets			
Trade and other receivables	20	185,623	5,463
Bank balances and cash		60,144	—
		<u>245,767</u>	<u>5,463</u>
Current liabilities			
Trade and other payables	22	1,416	5,463
Net current assets			
		<u>244,351</u>	<u>—</u>
Total assets less current liabilities			
		<u>537,465</u>	<u>—</u>
Financed by:			
Capital and reserves			
Share capital	24	200,000	—
Reserves	25	337,465	—
		<u>537,465</u>	<u>—</u>

Approved by the Board of Directors on 23 April 2003.

Dr. Tsai Yen Yu
Director

Mr. Lee Ming Ta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Total equity as at 1 January		454,343	464,896
Deficit on revaluation of properties	25	(2,045)	(13,512)
Exchange differences arising on translation of the accounts of foreign subsidiaries and associated companies	25	2,890	(28,406)
Net gains (losses) not recognised in the profit and loss account		845	(41,918)
Profit for the year	25	66,472	71,043
Dividends paid to then shareholders of the Group's subsidiaries prior to the listing of the Company	25	–	(39,678)
Dividends	25	(37,960)	–
Net proceeds from issuance of shares	24, 25	250,430	–
Total equity as at 31 December		734,130	454,343

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Net cash inflow generated from operations	26(a)	66,595	134,808
Interest paid		(477)	(791)
Interest received		1,903	1,355
Overseas taxation paid		(19,347)	(24,108)
Net cash inflow from operating activities		<u>48,674</u>	<u>111,264</u>
Investing activities			
Purchase of property, plant and equipment	26(c)	(44,638)	(69,419)
Proceeds from disposals of assets held for resale		29,912	–
Proceeds from disposals of property, plant and equipment		3,124	3,621
Increase of non-trading securities		(6,786)	–
Acquisition of an associated company		(942)	–
Acquisition of minority interests of the Peoples Republic of China ("PRC") Subsidiaries		(14,859)	–
Prepayment for acquisition of minority interests of PRC Subsidiaries		(11,043)	–
Acquisition of subsidiaries		–	764
Consolidation of NB Chengdu		–	(328)
Purchase of trading securities		(110,516)	(85,505)
Proceeds from trading securities		90,578	68,767
Increase in intangible assets		(1,006)	(5,019)
Net cash outflow from investing activities		<u>(66,176)</u>	<u>(87,119)</u>
Net cash (outflow)/inflow before financing		<u>(17,502)</u>	<u>24,145</u>
Financing activities	26(b)		
Proceeds arising from issuance of shares		275,000	–
Share issuance expenses		(24,570)	–
Net (decrease)/increase in short-term bank borrowings, net of repayments		(2,112)	1,990
Net repayment of loans from a related party		–	(13,165)
Repayment of long-term bank borrowings		–	(244)
Capital contribution from minority shareholders		3,615	20,720
Dividends paid		(94,044)	(39,678)
Dividends paid to minority shareholders		(188)	(116)
Net cash inflow/(outflow) from financing		<u>157,701</u>	<u>(30,493)</u>
Increase/(decrease) in cash and cash equivalents		140,199	(6,348)
Cash and cash equivalents at 1 January		76,110	90,568
Effect of foreign exchange rate changes		469	(8,110)
Cash and cash equivalents at 31 December	26(d)	<u>216,778</u>	<u>76,110</u>

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:

	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sales of goods	254,810	230,021
Service income	51,468	24,545
	<hr/> 306,278 <hr/>	<hr/> 254,566 <hr/>
Other revenues		
Net income from barter transactions	14,994	–
Gross rental income from investment properties	2,228	2,860
Gross rental income from other properties	667	331
Entrustment income from a former minority shareholder (Note 14 (d))	1,979	–
Gain on disposal of assets held for resale (Note 13 (c))	5,817	–
Gain on disposal of property, plant and equipment	–	132
Interest income	1,903	1,355
Other income	809	1,681
	<hr/> 28,397 <hr/>	<hr/> 6,359 <hr/>
Total revenues	<hr/> 334,675 <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>	<u>79,883</u>
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	
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			
	Other	Segment	Total	Capital	
Turnover	revenues	result	assets	expenditure	
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
Charging		
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	–
Crediting		
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

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	15,000	–
2002 final, proposed, of HK\$0.02 per ordinary share	40,000	–
	<hr/>	<hr/>
	55,000	22,960
	<hr/>	<hr/>
	55,000	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	
Cost or valuation:								
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
Accumulated depreciation:								
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
Net book value:								
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:

	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	-	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	286,328	—

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	942	—

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
	<hr/>	<hr/>
	54,863	54,282
Less: Provision for inventory obsolescence	(2,145)	(1,608)
	<hr/>	<hr/>
	52,718	52,674

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	–
	<hr/>	<hr/>	<hr/>	<hr/>
	102,418	65,987	185,623	5,463
Less: Provision for doubtful debts	(1,286)	(1,619)	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	101,132	64,368	185,623	5,463

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:

	Authorised	
	No. of Shares	Ordinary shares of HK\$0.1 each HK\$
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>
	Issued and fully paid	
	No. of Shares	Ordinary shares of HK\$0.1 each HK\$
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.

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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)
	<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>
Balances as of 31 December 2002							
Representing:							
2002 Final dividend proposed						40,000	
Others						78,192	
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						<u>82,652</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>66,595</u>	<u>134,808</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 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 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.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of Natural Beauty Bio-Technology Limited (the "Company") will be held at Chater Room I, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on 29 May 2003 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements, directors' report and auditors' report of the Company for the year ended 31 December 2002.
2. To approve the final and special dividends for the year ended 31 December 2002.
3. To re-elect the retiring directors and to authorise the board of directors to fix the remuneration of the directors of the Company (the "Directors").
4. To re-appoint auditors and to authorise the board of directors of the Company (the "Board") to fix their remuneration.

As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as ordinary resolutions:

5A. **"THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval granted in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), or (ii) the exercise of any rights of subscription under the share option scheme of the Company approved by The Stock Exchange of Hong Kong Limited, or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with its Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the

Notice of Annual General Meeting

issued share capital of the Company as at the date of passing this resolution, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Company’s Articles of Association to be held; or
- (iii) the date upon which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the shareholders (the “Shareholders”) of the Company in general meeting.

“Rights Issue” means an offer of shares in the capital of the Company open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong).”

5B. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HK\$0.10 each in the capital of the Company subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors on behalf of the Company during the Relevant Period (as hereinafter defined) to procure the Company to purchase its shares at a price determined by the Directors;

Notice of Annual General Meeting

(c) the aggregate nominal amount of the shares which are authorised to be purchased by the Directors of the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution, and the said authority shall be limited accordingly;

(d) for the purposes of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Company’s Articles of Association to be held; or
- (iii) the date upon which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the Shareholders in general meeting.

5C. **“THAT:**

conditional upon the passing of the resolutions set out in paragraphs 5A and 5B of the notice convening this Meeting, the general mandate granted to the Directors of the Company pursuant to the resolution set out in paragraph 5A of the notice convening this Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company under the authority granted pursuant to the resolution set out in paragraph 5B of the notice convening this Meeting, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution.”

6. To transact any other business.

By order of the Board
Lee Wai Kam, Hyman
Company Secretary

Hong Kong, 23 April 2003

Notice of Annual General Meeting

Notes:

1. The register of members of the Company will be closed from 27 May 2003 (Tuesday) to 28 May 2003 (Wednesday), both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final and special dividends, all completed transfer forms together with the relevant share certificates must be lodged with the Company's branch share registrar, Hong Kong Registrars Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 26 May 2003 (Monday).
2. Any shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more separate proxies to attend and, on a poll, to vote instead of him. A proxy need not be a shareholder of the Company.
3. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's principal office in Hong Kong at 4th Floor, Manson House, 74-78 Nathan Road, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned Meeting.
4. With respect to the resolution set out in paragraph 5B of the notice, approval is being sought from Shareholders for a general mandate to be given to the Directors to purchase shares of the Company.
5. With respect to the resolutions set out in paragraphs 5A and 5C of the notice, approval is being sought from Shareholders for general mandates to be given to the Directors to allot, issue and deal with shares of the Company in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
6. An explanatory statement containing the information with respect to the resolutions set out in paragraphs 5A to 5C of the notice will be sent to the shareholders together with the 2002 annual report.