

Chairman's Statement
主席報告書



Dr. Tsai Yen Yu, Chairman
蔡燕玉博士·主席

Dear fellow shareholders,

OVERVIEW

Challenging as it was in year 2003, our Group has made significant achievement in progressing our business towards a sustainable growth path. In our industry, the two crucial factors that underline success are distribution and products. It is in these two areas that the Group has achieved great success in the past year.

As a skincare and beauty products distributor and services provider operating predominantly in China and Taiwan, the onset of SARS which lasted seven months from March to September in 2003 dealt a severe blow to our business. Customers were inhibited to visit our spa centers and beauty salons, that are our primary sales outlets. In the first half of 2003, sales dropped 26.9% to HK\$103.4 million. However there was a clear trend of picking up in the second half of the year, which testifies to the resilience and strong business foundation of our Group. Sales in the second half of 2003 was around HK\$216.7 million. On a yearly basis, our revenue were down less than around 1.0% to HK\$320.1 million compared to 2002.

敬啟者：

回顧

二零零三年乃充滿挑戰的一年，本集團取得卓越成就，引領業務踏上穩健增長的軌道。分銷及產品乃業內兩大成功關鍵。本集團於去年在此兩項範疇上均成績斐然。

作為雄據中台市場的護膚及美容產品經銷商兼服務供應商，二零零三年三月至九月的七個月期間突然爆發非典型肺炎，對我們的業務造成一定的打擊。客戶暫停親臨我們的水療中心及美容中心，而該等中心乃我們的主要銷售專門店，故於二零零三年上半年，銷售減少26.9%至103,400,000港元。然而，下半年明顯呈現好轉趨勢，足證本集團的反彈能力雄厚，業務根基穩固。二零零三年下半年之銷售約為216,700,000港元，而全年收入則較二零零二年下降少於1.0%至320,100,000港元。

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During the year, our Group incurred higher costs in advertising and promotions as we tried to expand our sales channels further as well as to launch new products. Higher product discounts were offered to our franchisees in a bid to encourage more sales from them. These costs and expenses, while important to the Group's long-term growth, affected our bottomline during the year.

For 2003, our Group recorded a net profit of HK\$54.1 million, down 20.7% from that of 2002. The slowing down of revenue and profit was due to the exceptional circumstances of a mass outbreak of SARS, which we believe is a one-time event. We are confident that our Group will be steered back to its growth path from 2004.

MAJOR ACHIEVEMENTS

On the business side, however, our Group has lost no time in embarking on a number of fundamental tasks that would help secure its market share and position itself for growth. We have completed the acquisition of all 25 resellers in PRC, turning them from third party companies into subsidiaries of the Group. As group companies, they will supply to our over 2,300 stores at a single platform using a unified system of inventory management, logistics and sales and distribution. The full control of the distribution network gives us competitive advantages and raises the entry barrier for international brands when they are allowed to sell to the PRC domestic market under WTO.

In November 2003, we officially launched the biotechnological anti-aging product, NB-1. Considered our flagship product, NB-1 was an instant market success. A total of around 16,000 units were sold within two months, earning sales of around HK\$42 million for the Group. Five years in the making, the product was the result of close collaboration with Harvard NB Bio-Science LLC, run by Dr. Chen Ji Dai, who is one of the first Chinese scientists to complete the human genome. Patent for NB-1 is currently under application. The successful launch of this product has greatly strengthened our brand credibility and enhanced our goodwill amongst customers.

年內，本集團銳意進一步擴充銷售渠道及推出新產品，故產生較高廣告及宣傳費用。我們向總經銷商提供較高產品折扣優惠，以收促銷之效。該等費用及開支對本集團長遠發展均重要攸關，惟對我們於年內之盈利構成影響。

於二零零三年，本集團錄得純利54,100,000港元，較二零零二年減少20.7%。收入及溢利減少，乃因廣泛爆發非典型肺炎之突發事件所致，惟我們認為此乃偶發事件。我們有信心本集團將能於二零零四年重回增長軌道。

主要成就

然而，於業務方面，本集團密鑼緊鼓地開展多項有助鞏固其市場佔有率及地位之基礎工作，務求促進業務增長。我們已完成收購中國全數25家經銷商，使之從第三方公司轉為本集團之附屬公司。作為集團公司，他們將運用單一平台上的統一存貨管理、物流及銷售與分銷系統，向我們逾2,300家店舖供貨，提供支援。全面掌握分銷網絡為我們帶來競爭優勢，對透過世界貿易組織獲准於中國本地市場銷售之國際品牌，亦形成發展障礙。

於二零零三年十一月，我們正式推出生物科技抗老產品NB-1。作為我們的旗艦產品，NB-1旋即進佔市場，於短短兩個月內售出共約16,000件產品，為本集團帶來銷售約42,000,000港元。此項產品乃本集團與Harvard NB Bio-Science LLC緊密合作之成果，經五年悉心研製而成。Harvard NB Bio-Science LLC由首批完成人體基因排列的中國科學家之一陳基岱博士主理。本集團現正申請NB-1專利權。此項產品成功面市，大大加強客戶對我們品牌的信心並提升我們的聲譽。

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COST CONTROL AND SALES CHANNEL EXPANSION

To combat the dampened sales, particular in the first half of the year, a number of measures were undertaken to mitigate the adverse effects. Our Group has undertaken a number of cost containment measures to keep costs in line with sales, including seeking rental reduction from landlords; our directors also voluntarily reduced their remuneration. We have also explored a number of alternative sales channels to continue to reach out to customers. For example, in Taiwan, we commissioned airtime in a TV sales channel to actively promote our products.

In the aftermath of SARS we have made a strategic change to our sales and distribution, from relying on sales generated from spas and beauty saloons to a more product-centric approach. This calls for more aggressive push of the NB brand name so that our product will have direct customer appeal and can be sold in a much broader distribution channels, such as sales counters at department stores.

At present, we have over 2,300 Natural Beauty sales outlets, including around 70 self-owned and self-run spas. In addition there are around 160 dedicated sales counters at various locations, the number of which we will continue to increase in order to capture a bigger market.

FUTURE PLANS

Looking ahead, expanding our network will be a key priority for 2004. After a slow year of network expansion under the effects of SARS, our Group will redirect its focus on opening new outlets in 2004 with an aim of adding an additional 200 to 300 outlets, mostly "shop within shop", bringing the total to around 2,600. Already the largest skincare and beauty product and service provider in PRC, the additional outlets will reinforce NB's position as the undisputed leader in the marketplace.

Following the opening our own NB SPA in Four Seasons Hotel in Shanghai, we will follow our strategy of collaborating with upmarket venue providers such as five-star hotels, to operate premium spas to capture the affluent segment with high spending power.

控制成本及擴充銷售渠道

為抗衡銷情呆滯，特別是上半年度情況的影響，本集團已採取多項措施，紓緩負面影響。本集團採取多項減省成本措施，其中包括要求業主減租，而我們的董事亦自願減薪，務求令成本與銷售互相配合。我們亦另覓多個額外銷售渠道，以便不斷吸納客戶。例如，我們在台灣電視銷售渠道播出廣告，積極推廣產品。

非典型肺炎後，我們制訂策略改變銷售及分銷策略，由依賴水療中心及美容中心產生銷售，轉為著重於產品主導模式。此策略直接以產品引起顧客興趣，亦能透過如百貨公司銷售專櫃等更廣泛之分銷渠道進行銷售，加強推動自然美品牌之發展。

我們現有超過2,300家自然美銷售專門店，其中約70家為自行經營之自設水療中心。此外，我們於多個地點設有約160個銷售專櫃，我們將不斷增加專櫃數目，進佔更大市場。

未來計劃

展望將來，擴充網絡乃二零零四年之首要任務。過去一年因非典型肺炎影響拖慢了網絡擴充步伐，本集團於二零零四年將轉向集中開設新專門店，目標為增設200至300家專門店，大部分為「店中店」，令總數高達約2,600家。作為中國最大規模護膚及美容產品與服務供應商，增設專門店將毋容置疑加強自然美的市場領導地位。

繼於上海四季酒店自設自然美SPA中心後，我們按照策略，與五星級酒店等高級場所經營商合作經營高級水療中心，以爭消費能力較強的富裕客戶。

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We have high hopes in the sales of NB-1. Judging from the strong market response it attracted in the last two months of 2003, the full year sales of 2004 will be extremely promising and it will be a major source of revenue in the coming year. In addition, we will continue to expand our Biotech product range to further penetrate this lucrative market. At the same time, we are actively developing body slimming nutritional products, leveraging on our advanced knowhow in bio-technology. The second generation of our body slimming underwear is also planned for launch for the second half of 2004. The much broadened product range will further enlarge our revenue base.

All our products are sold under our NB brand, which is an important asset to us as we compete more and more with international brands. Through the years, the NB brand has developed a credible and quality image, representing meticulous R&D and manufacturing process, and having qualities that are developed with the Asian skin characteristics in mind.

To advance our Group to the next phase of growth, our mid- to long-term goal is to seek alliance with a compatible international brand of beauty products. Such an alliance will be beneficial to both as we can learn from their international experience while helping them penetrate the domestic market through our distribution network.

Rising consumerism, expansion of the middle class and the strive for beauty and healthcare has created a booming market in Greater China for Natural Beauty. With our superior products, strong brand image and extensive distribution network, we are confident that Natural Beauty has got the right formula to win and excel.

我們對NB-1的銷售信心十足。該產品於二零零三年最後兩個月的市場反應熱烈，料二零零四年全年銷售定能創下佳績，成為來年主要收入來源。此外，我們將繼續擴充生物科技產品系列，進一步搶攻此盈利潛力豐厚的市場。與此同時，我們積極善用我們的先進生物科技技術，研發纖體營養產品。我們計劃於二零零四年下半年推出第二代纖體內衣。隨着產品系列越趨多元化，我們的收入基礎亦將進一步擴大。

我們所有產品均以自然美品牌銷售，在眾多國際品牌的競爭下，自然美品牌乃我們的重要資產。多年來，我們已為自然美品牌建立優質可信的形象，產品均經過嚴謹的研發及製造程序，且專門針對亞洲人皮膚特性而研製。

為帶領本集團邁進另一個發展階段，我們的中長遠目標為與能互惠互利的國際美容產品品牌結盟。透過聯盟，我們一方面可吸收他們的國際經驗，另一方面則可幫助他們透過我們的分銷渠道進軍本地市場，以收互利互惠之效。

現今社會高舉保護消費者利益旗幟，加上中產階級之擴張以及追求美容護膚之趨勢，為自然美創造蓬勃的大中華區市場。憑藉我們的優質產品、強勁品牌形象以及廣泛的分銷網絡，我們有信心自然美正朝著成功與超越同儕的正確路向邁進。

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NOTE OF THANKS

Last but not least, I would like to thank for directors, shareholders, staff and business partners for their perseverance and support during the challenging time in the past year. I believe we have come through in good shape and made some real progress in solidifying our business platform. We are now in a strong position for growth in 2004, which I believe will be a very good year for Natural Beauty.

Dr. Tsai Yen Yu
Chairman

致謝

最後，本人謹此向董事、股東、員工及業務夥伴於去年艱鉅時刻對本集團堅定不移的支持致以衷心感謝。本人相信，我們已擺脫困境，且維持良好經營狀況，並已進一步鞏固業務根基。我們現時擁有強勁優勢，可望於二零零四年錄得增長。本人相信，二零零四年將是自然美的豐收年。

此致

各位股東 台照

蔡燕玉博士
主席
謹啟