

Dear shareholders,

Striving to be the leading beauty products and spa services provider in Greater China, Natural Beauty is pleased to announce that we are well positioned to capitalize on the strong growth potential in the region, especially in China. During the year ended 31 December 2004, we have achieved a total turnover of HK\$358.1 million, representing a year-on-year growth rate of 11.9%. Net income illustrated a satisfactory growth of 16.8% to HK\$63.2 million. The improvement reflects our past efforts in enhancing the business operations, revamping brand image, developing distribution channels, expanding product and service categories and training of beauticians.

Natural Beauty had 2,076 stores as of 31 December 2004, representing a drop of 12.4% as compared with last year. Thanks to better allocation of resources and improved operation efficiency, average sales per store increased by 16.7% to HK\$161,000 for the year ended 31 December 2004. Satisfactory revenue growth together with an efficient cost-base resulted in a sustainable gross profit margin and net profit margin at 77.0% and 17.7% respectively.

Our brand – Natural Beauty – was nominated as Top 10 most influential cosmetic brands in China and the Company has won the Golin Awards in Corporate Branding/Reputation Management. In addition, our franchisee network is nominated as the best franchisee network with the highest consumer recognition rate of 49.7% according to the Annual Report of 2005 Beauty Economics in China.

RIGHT STRATEGIES FOR CONTINUOUS IMPROVEMENT

Increasing spending in beauty and skin care products and services, especially in China, presents an enormous business opportunity for Natural Beauty. According to the Annual Report of 2005 Beauty Economics in China, it is expected that the growth rate of beauty service industry will remain at approximately 15% from 2003 to 2007 as opposed to the country's GDP growth of 8%. On the other hand, the growth rate for cosmetic industry will be 9.4% of the same period. We, being the oriental beauty professionals, are well prepared to capture the opportunities ahead with the following strategies:

- Revamp brand image – Established a branding strategy to revamp our image to be more appealing to our potential client base, typically young office ladies ranging from age 25 to 39. In addition, we will continue to build and maintain close relationships amongst media and investor communities.
- New sales initiatives – Following the successful launch of NB-1 series in December 2003, Natural Beauty rolled out new products within NB-1 family by launching NB-1 Deep Whitening series in 2004. In addition, we will also continue in introducing other synergistic products such as health supplements and body sculpturing lingerie.



Chairman's Statement

主席報告書

Regarding the services income, Natural Beauty plans to explore new revenue sources. A new system of franchise fee would be implemented in 2005 while promotion and training fee to be introduced in 2006. We believe such new sales initiatives would further enhance the earning capacity of the Company and led to higher sales per store.

- Professional skin care examination – In 2004, we have launched NB-patented computerized skin and iris health examination system, together with our extensive experience in beauty know-how, to increase cross-selling opportunity through customized technology. This will continue to be an effective tool for beauty consultants to provide a thorough diagnosis and customized solutions with fully integrated products and services to the customers.
- Improving distribution system – Our first logistic center began operations in Shanghai in December 2004. With the implementation of China Post Logistics, it will take only 2 to 3 days for franchised stores to receive products as opposed to 2 to 3 weeks in the past. We foresee an improvement in inventory days, in labor costs and in internal communication of marketing campaigns. Beijing, Guangzhou, Chongqing and Xian logistics centers are expected to be in full operation by mid 2005.

OUR VISION

Every successful business will need consolidation after certain good years, in order to be prepared for future success. We believe the potential for a company and security of returns for investors are just as important as the sales growth. With clear goals and careful future plans for the Company, I am pleased to see that Natural Beauty is now in a strong position for further growth in 2005 and onwards. We will continue to leverage our competitive strengths to bring fruitful returns to our shareholders.

Natural Beauty is dedicated to cultivate our staff, customers, students and franchisee owners to appreciate our education, products and services, who made modern ladies beautiful, confident and wealthy.

NOTE OF THANKS

I would like to once again, with great pleasure, thank the members of the Board, shareholders, and business partners for their valuable support and guidance. I am also very appreciative and grateful to the Group's management team and staff for their commitment and hard work.

Dr. Tsai Yen Yu

Chairman

Hong Kong, 20 April 2005

各位股東：

自然美一向致力成為居大中華區領導地位的美容產品及水療中心服務供應商，現欣然宣佈，本公司已穩據有利位置，勢能把握區內，特別是中國的強勁增長潛力。截至二零零四年十二月三十一日止年度，本公司錄得總營業額358,100,000港元，較去年增長11.9%。淨收益增加16.8%至63,200,000港元，成績令人滿意，足證本集團過去積極改善業務經營、提升品牌形象、發展分銷渠道、擴闊產品及服務種類以及培訓美容師取得成果。

於二零零四年十二月三十一日，自然美設有2,076家專門店，較去年減少12.4%，惟透過改善資源分配及經營效率，每間專門店的平均銷售額於截至二零零四年十二月三十一日止年度，增加16.7%至161,000港元。收益增長理想，加上具效益成本基礎，邊際毛利及邊際純利分別達77.0%及17.7%。

本公司的自然美品牌於中國獲譽為十大最具影響力化妝品牌，本公司更榮獲Golin Awards的Corporate Branding/Reputation Management獎項。此外，本公司的加盟店網絡亦獲提名為最佳加盟店網絡，而根據Beauty Economics in China二零零五年年報，本公司加盟店網絡之客戶認受率高踞榜首，達49.7%。

持續改善最佳策略

隨著美容與護膚產品及服務消費日增，尤其是在中國，為自然美締造龐大商機。根據Beauty Economics in China二零零五年年報，預期於二零零三年至二零零七年期間，美容服務業增長率將維持於約15%水平，而國內生產總值增長率則為8%，化妝業同期增長率將為9.4%。作為東方美容專才，本公司已準備就緒，採取以下策略以於日後抓緊機會：

- 提升品牌形象－制定品牌策略，提升本公司形象與對潛在客戶群的吸引力，一般為25至39歲的年輕辦公室女郎。此外，本公司將繼續建立及維繫與傳媒及投資者之緊密關係。
- 銷售新猶－有見NB-1系列於二零零三年十二月成功推出後，取得極佳成績，自然美於二零零四年推出NB-1系列新產品－NB-1深層美白系列。此外，本公司亦將繼續推廣保健及塑身內衣等其他輔助產品。



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服務收益方面，自然美計劃開拓新收益來源。新加盟費制度於二零零五年實行，本公司亦將於二零零六年收取推廣及培訓費用。本公司相信，該等新銷售計劃將進一步加強本公司獲利能力，提升每間店舖的銷售額。

- 專業護膚測試－於二零零四年，本公司推出NB專利電腦化皮膚及虹膜健康測試系統，加上本公司的豐富美容專業知識，將可藉特別設計的技術增加相互銷售機會，成為美容顧問的有效工具，從而透過全面產品及服務，向顧客提供透徹分析及度身訂造服務。
- 改善分銷制度－本公司首家物流中心已於二零零四年十二月在上海開業。實行中國郵政物流後，加盟店可於短短2至3天內獲取供貨，而過去則需時2至3星期。本公司預期，存貨流轉期、勞工成本及市場推廣活動內部通訊將得到改善。北京、廣州、重慶及西安的物流中心預期將於二零零五年年中全面運作。

本公司目標

每家成功企業即使連年取得佳績，亦會作出整合，以為日後繼續增長作好準備。本公司相信，公司的發展潛力及回餽投資者與銷售額增長同樣重要。憑藉清晰的目標及審慎的日後計劃，本人喜見自然美正蓄勢待發，於二零零五年及日後更上一層樓。本公司將繼續發揮競爭優勢，為本公司股東帶來豐碩回報。

自然美致力培育員工、客戶、學員及加盟店經營商，使之體會本公司教育、產品及服務質素之精良，令現代女性漂亮動人及自信富足。


致謝

本人謹再次向董事會成員、股東及業務夥伴的寶貴支持及指導致以衷心謝意，亦感謝本集團管理層隊伍及員工的竭誠服務及努力工作。

主席


蔡燕玉博士

香港，二零零五年四月二十日



*Time is not the enemy.
Time simply chisels away
what is not perfect,
until your inner beauty
bursts into full bloom.*

∞



時間
不是青春的敵人
它只是一直在那裡 呆著
等 待 我們 抓緊
沉澱 出美的 氣質

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