

Natural Beauty Bio-technology Limited



- Achieved an 86.5% average gross margin over 1998-2001 in China's fast-growing beauty products industry
- Will build 40 spas in China in 2002 that will exclusively use Natural Beauty products, leading to even higher margins
- The deluxe 'Four Seasons' hotel in Shanghai has outsourced its spa operations to Natural Beauty

IPO

N. Balakrishnan - (852) 2867 7241
nbala@worldsec.com



Worldsec Research
Greater China
March 2002



DISCLAIMER

"THIS REPORT IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE AN OFFER OR SOLICITATION WITH RESPECT TO THE PURCHASE OR SALE OF ANY SECURITY.

REFERENCE IS MADE TO THE OFFICIAL OFFERING DOCUMENTS TO BE ISSUED BY THE COMPANY FOR DEFINITIVE INFORMATION WITH RESPECT TO THE OFFERING, AND ANY DECISION TO PURCHASE SECURITIES IN THE PROPOSED OFFERING MUST BE MADE SOLELY ON THE BASIS OF THE INFORMATION CONTAINED IN SUCH OFFICIAL OFFERING DOCUMENTS. ANY OPINIONS AND PROJECTIONS CONTAINED IN THIS DOCUMENT ARE ENTIRELY THOSE OF THE AUTHORS. NONE OF Natural BEAUTY BIO-TECHNOLOGY LIMITED, WORLDSEC INTERNATIONAL LIMITED OR ANY PERSON CONNECTED WITH ANY OF THEM ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION THEREWITH. THIS DOCUMENT HAS NOT BEEN APPROVED OR DISAPPROVED NATURAL BEAUTY BIO-TECHNOLOGY LIMITED OR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES OR SHAREHOLDERS, AND NATURAL BEAUTY BIO-TECHNOLOGY LIMITED NOR ANY OF SUCH PERSONS SHALL BE IN ANY WAY RESPONSIBLE FOR THE CONTENTS HEREOF. ANY OPINION, ESTIMATE OR PROJECTION HEREIN CONSTITUTES A JUDGMENT AS OF THE DATE OF THIS REPORT, AND THERE CAN BE NO ASSURANCE THAT FUTURE RESULTS OR EVENTS WILL BE CONSISTENT WITH ANY SUCH OPINION, ESTIMATE OR PROJECTION. THE INFORMATION IN THIS DOCUMENT IS SUBJECT TO CHANGE WITHOUT NOTICE, ITS ACCURACY IS NOT GUARANTEED, IT MAY BE INCOMPLETE OR CONDENSED AND IT MAY NOT CONTAIN ALL MATERIAL INFORMATION CONCERNING THE COMPANY.

THIS REPORT IS CONFIDENTIAL AND SHALL NOT BE REPRODUCED OR REDISTRIBUTED OUTSIDE THE RECIPIENT'S ORGANIZATION OR PUBLICIZED IN WHOLE OR IN PART FOR ANY PURPOSE. BY ACCEPTING THIS REPORT, RECIPIENT AGREES TO BE BOUND BY ALL THE LIMITATIONS STATED HEREIN."



Contents Summary

Investment Highlights	3
1. Company Background	4
2. Beauty Products Industry	8
3. Risk Factors	12



Investment Highlights

- **Natural Beauty Bio-Technology Limited (NB) is capitalising on two new and lucrative trends in the beauty care business**, a shift towards natural ingredients and growing use of expensive body treatments rendered in spas to augment the beauty regimen. NB will be doing this in the fastest growing beauty product market in the world: China.
- **NB already enjoys +80% gross margins in the sale of its beauty products**. As it plans to open 40 spas in China in FY02 exclusively using its own products, NB will get even higher margins for its products.
- **The payback periods for spas can be as short as three months in China** and cost about Rmb2mn to build. NB intends to build 40 spas in the PRC this year.
- **NB’s management is very experienced in the beauty products business**, having been running NB since 1985 in Taiwan and for more than a decade in mainland China, long before the currently mushrooming competitors started to move in.
- **Surveys* conducted in China indicate that NB and its products have a good reputation and are well recognised**. By leveraging this goodwill into the total 45 spas in China that will use its products exclusively, NB will be capturing the valued affluent segments of the market as well as vertically integrating its business. The good reputation of NB’s spas can be gauged by the fact that the very upmarket Four Seasons Hotel in Shanghai has outsourced the operation of its in-house spa to NB, using NB products exclusively.
- **The main bane of selling consumer products in China is the lack of a proper distribution system**. The need to build it from scratch often results in increased costs and delays, even if demand is good. NB has had ten years in China to build a nationwide network of distributors, franchises, beauty counters and spas. New entrants to the market will take at least two years to duplicate such a network, providing significant barriers to entry.
- **NB is a good example of a company that has applied the maxim ‘think global and act local’**. Under the leadership of Dr. Tsai Yen-Ping, NB has used the latest technology and trends worldwide to sell its products in East Asia and particularly China. At the same time, it has adapted its products to suit the different skin textures of East Asians. It has also trained and used local labour and management in China, resulting in substantial cost savings.

*Conducted by ‘Dawson’ market research company in September 2001



1. Company Background

Main business

Natural Beauty Bio-Technology Limited (NB) is principally engaged in:

- (i) the research and development, manufacture and sale of aromatherapy, beauty and skincare products, marketed under the group's brand name and distributed through a sales network with over 1,700 sales points in the PRC and Taiwan;
- (ii) the provision of skin treatments and spa services through its beauty centres, offering tailor-made beauty and skincare solutions, particularly, aromatherapy, using quality essential oils and specialised equipment.

At present, the manufacture and sale of aromatherapy, beauty and skincare products accounts for the bulk of the group's turnover and profit.

Products

NB is one of the leading beauty and skincare product manufacturers and service providers in the PRC and Taiwan. Since its establishment, the group has conducted continuous research on aromatherapy, beauty and skincare products and developed a great variety of product lines with different pricing, packaging and functions, with a total of over 700 choices.

NB's products are mainly made from natural ingredients, in particular, plant-extract essences. The products are manufactured at the group's plants in Taiwan and China. Both plants have obtained the accreditation of ISO9002.

Since its establishment, the group has formulated and implemented a large-scale franchise programme. Over 910 and 660 franchised beauty centres were successfully established in major areas in the PRC and Taiwan, respectively.

Together with over 40 wholly-owned and operated beauty centres in the PRC and 10 in Taiwan, and with 130 dedicated counters in China, the group had a total of over 1,700 sales points covering all major cities in these nations.

This extensive geographical coverage is one of the keys to the high market penetration and publicity of the group's products and services in the PRC and Taiwan. In 1997, the group obtained the accreditation of 'Good Store Practice' for its franchise programme in Taiwan, which indicates NB's successful management and administration.



Expansion plans and prospects

NB believes that the beauty and skincare market in the Greater China region offers great opportunities, and is therefore planning to expand its existing distribution network, product lines and services in the region. It has been considering the following future plans to strengthen its market presence.

1) Increase the number of Natural Beauty spas

The market for skin treatment, beauty and spa services is growing rapidly in the Greater China region, and the group intends to establish ‘Natural Beauty SPAs’ to cover major areas in the Greater China region. Each of these spas, which will target the premier market segment, will be furnished with sophisticated equipment and facilities to enable the provision of a full range of skin treatments and spa services. We believe that this line of business will present strong growth potential for the group.

In addition to establishing more NB spas, the group will also refurbish and upgrade a number of selected NB Salon SPAs, which have been targeted at the middle market segment. This segmentation of spas according to different purchasing power will enhance the group’s competitiveness.

2) Expand production facilities and plant natural ingredients

NB currently has two plants, in Shanghai and Taipei. The group plans to tap the expected huge future consumer demand for its products, consolidate production capacity and upgrade existing manufacturing processes and facilities. It therefore intends to purchase additional production facilities, reengineer its existing production lines and invest in complementary technologies to enhance production quality, efficiency and capacity.

With the belief ‘Natural is the source of Beauty’ and in the pursuit of vertical integration, the group plans to farm natural plants which can be used as raw materials for its products. This would facilitate better quality control of its raw materials and complement product research and development.

3) Enhance the marketing and promotion of its products

Taking into account the characteristics of the consumer market in the Greater China region, NB recognises that high brand recognition and strong publicity is essential for successful market penetration.

In order to broaden its customer base and capture both middle and high-income earners in the Greater China region, NB plans to scale up its marketing and sales programmes by launching trade shows, beauty contests, advertisements and seminars to familiarise the public with its brand name and products.

4) Expand research and development resources

With the additional funds from the share offer, the group will be able to provide a better-equipped environment and additional resources for its research and development team, thus improving the R&D of its products.



Trading Record

The following is a summary of the audited combined results of the group for the three years ended 31 December 2000 and the ten months ended 31 October 2001, which is presented on the basis that the existing group's structure was in place throughout the trading record period under review.

Y/E (HK\$'000)	12/98	12/99	12/00	10M01
Turnover				
Sale of NB's aromatherapy, beauty and skincare products	171,306	182,234	175,238	163,038
Provision of skin treatments and spa services	1,318	1,698	7,716	16,088
Sale of other products and rental income from investment properties	12,808	15,616	22,560	12,073
	185,432	199,548	205,514	191,199
Cost of sales	(45,966)	(42,951)	(43,614)	(50,304)
Gross profit	139,466	156,597	161,900	140,895
Other revenue	1,660	1,285	713	730
Operating expenses	(77,890)	(83,469)	(85,464)	(93,105)
Profit from operations	63,236	74,413	77,149	48,520
Finance income, net	1,398	1,170	800	461
Income from ST investments	2,392	2,696	3,310	1,325
Others, net	1,784	1,701	148	1,615
Net profit before tax	68,810	79,980	81,407	51,921
Taxation	(8,859)	(12,917)	(11,330)	(7,397)
Minority interests	(227)	962	56	535
Net profit after tax	59,724	68,025	70,133	45,059
Dividends	19,731	40,701	66,850	39,678

The gross profit and net profit margins of the group over the trading record period shown above are as follows.

Y/E (%)	12/98	12/99	12/00	10M01
Gross profit margin	81.4	85.9	92.3	86.4
Net profit margin	34.8	37.3	40.2	27.6

A detailed breakdown of the group's growth in turnover, gross profit and net profit after tax over the trading record period is follows.

Y/E	Turnover Growth (% YoY)	Gross Profit Growth (% YoY)	After-tax Net Profit Growth (% YoY)
12/99	7.61	12.28	13.9
12/00	2.99	3.39	3.10
12/01*	25.26	18.58	1.30

*Estimated based on the profit estimate for the year ended 31 December 2001

NB's turnover growth rate slowed significantly in FY00 due to the economic downturn in Taiwan. In FY00, turnover of the Taiwan segment decreased by approximately 6.41%. Consequently, the growth rates in NB's gross profit and net profit after tax also slowed significantly.



The relatively high growth rates of the group's gross profit and the net profit after tax in FY99 resulted mainly from the decrease in the costs of materials in the Taiwan segment, as it used local agencies to import raw materials at lower prices.

The group's turnover growth rate re-accelerated to approximately 25.26% in FY01. This sharp increase was mainly attributable to the increased contribution from the PRC segment. At end-October 2001, turnover of skincare products in the PRC increased by around HK\$16.4mn from that of FY00.

In general, there was a strong increase in market demand for skincare, aromatherapy products and skin treatments and beauty and spa services in the PRC segment in FY01. To capitalise on this trend, the group carried out a restructuring of its distribution channels in the PRC by establishing 25 subsidiaries from December 2000 to July 2001.

Turnover of the Taiwan segment is estimated to have decreased from around HK\$115.9mn in FY00 to about HK\$102.2mn in FY01, due to the continued poor economic performance in Taiwan. However, the group's total turnover increased from about HK\$205.5mn in FY00 to around HK\$257.4mn in FY01 due to the higher turnover from the PRC segment, from about HK\$89.5mn in FY00 to around HK\$155.2mn in FY01.

Management believes that the main reason for the 18.58% growth in gross profit in FY01 was the increase in its activities in the PRC. The China segment has therefore become an important earnings growth driver.

Allocation of Funds from IPO

Management intends to apply the proceeds from the share offer as follows:

- approximately HK\$80mn for the establishment of NB spas in the Greater China region;
- approximately HK\$30mn for the expansion of production facilities and planting natural ingredients;
- approximately HK\$50mn for the enhancement of the existing supply chain management system and building up an ECRM platform (which allows the group to retrieve market information and individual customer preference for building up a customer data base);
- approximately HK\$20mn for a marketing and promotion campaign;
- approximately HK\$10mn for research and development; and
- the remaining balance as general working capital.



2. Beauty Products Industry

PRC cosmetics industry

There are approximately 1,300 brands and thousands of products in the Chinese cosmetics and toiletries market. Skincare, hair care and oral hygiene were the three largest sectors in 2000.

The skincare sector is one of the largest in the Chinese cosmetics and toiletries market, accounting for more than 21% of sales in 2000. As seen below, sales of Rmb9.5bn in the skincare sector in 2000 rose almost 14% YoY and +74% over the review period as a whole. This makes it one of the most dynamic sectors in the market and, due to its noticeable value, the main driver of total market growth.

PRC Retail Sales of Cosmetics and Toiletries by Sector

Retail Sales (Rmbmn)	1996	1997	1998	1999	2000
Baby care	958	1,069	1,152	1,245	1,349
Bath & shower products	5,893	6,599	7,164	7,691	8,284
Deodorants	36	54	73	83	90
Hair care	5,653	6,496	7,363	8,343	9,404
Colour cosmetics	2,071	2,334	2,547	2,768	3,048
Men's grooming products	331	347	354	365	373
Oral hygiene	9,556	10,279	10,765	11,323	11,648
Fragrances	612	682	738	800	872
Skincare	5,467	6,411	7,312	8,366	9,521
Sun care	-	-	-	-	-
TOTAL	30,577	34,271	37,468	40,984	44,589

NB: - indicates non-existent or negligible presence; figures may not add up due to rounding.

Source: Euromonitor from 'The Market for Cosmetics and Toiletries in Asia-Pacific', 2001

Thousands of products from national and multinational companies compete in the skincare sector, with rising levels of disposable income facilitating purchases by an increasing number of consumers and greater sales of premium products. Some Chinese products marketed specifically for use on Asian skin have proven particularly popular.

Within the skincare sector, facial products accounted for nearly 90% of sales in 2000. Between 1996 and 2000, the skincare sector was stimulated by increased sales of innovative new products and the growing awareness of the importance of such products among consumers, particularly those in urban areas with higher levels of disposable income.

Facial moisturisers represented the most important product type in the skincare sector, accounting for a value share of more than 74% in 2000, up from less than 67% in 1996. Sales of facial moisturisers increased by 94% in current value terms over the review period as a whole and by 16.5% over the 1999/2000 period, making it the product type that contributed most to the growth of the skincare sector.

Among manufacturers, the general trend in facial moisturisers is the development of a series of multifunctional products, such as those with anti-wrinkle, whitening, moisturising, anti-ageing, and sun care properties, in order to stimulate volume sales.

**PRC Retail Sales of Skincare by Sub-sector**

Retail Sales (Rmbmn)	1996	1997	1998	1999	2000
Facial	4,727.7	5,599.4	6,447.0	7,452.4	8,551.0
Facial moisturisers	3,651.9	4,402.5	5,163.7	6,078.2	7,083.8
Nourishers/anti-agers	-	-	-	-	-
Cleansers	772.9	868.7	936.5	1,012.4	1,087.6
Toners	114.9	123.7	130.0	132.4	140.8
Face masks	188.0	204.5	216.8	229.4	238.8
Body care	532.6	583.7	620.5	652.0	690.4
Hand care	206.8	228.0	244.4	261.4	279.8
TOTAL	5,467.1	6,411.1	7,311.9	8,365.8	9,521.2

NB: - indicates non-existent or negligible presence; figures may not add up due to rounding.

Source: Euromonitor from 'The Market for Cosmetics and Toiletries in Asia-Pacific', 2001

According to Euromonitor, skincare will remain an important sector in the cosmetics and toiletries market, and is forecast to demonstrate the most dynamic performance in the forecast period of 2000-05, with value approaching Rmb20bn in 2005, an increase of well over 100% from 2000.

Forecast PRC Retail Sales of Cosmetics and Toiletries by Sector

Retail Sales (Rmbbn)	2001	2002	2003	2004	2005
Baby care	1.5	1.6	1.7	1.9	2.0
Bath & shower products	8.8	9.5	10.1	10.9	11.6
Deodorants	0.1	0.1	0.1	0.1	0.1
Hair care	10.6	12.0	13.8	15.6	17.7
Colour cosmetics	3.4	3.7	4.1	4.5	4.9
Men's grooming products	0.4	0.4	0.4	0.4	0.5
Oral hygiene	12.3	13.0	13.7	14.3	15.1
Fragrances	1.0	1.0	1.2	1.3	1.4
Skincare	10.9	12.5	14.4	16.8	19.7
Sun care	-	-	-	-	-
TOTAL	48.9	53.9	59.4	65.7	72.9

NB: - indicates non-existent or negligible presence; figures may not add up due to rounding.

Source: Euromonitor from 'The Market for Cosmetics and Toiletries in Asia-Pacific', 2001

Taiwan cosmetics industry

The changing attitudes of young males towards cosmetics, the increasing female workforce and the expansion of the consumer base, resulting in women using cosmetics at an earlier age, have combined to stimulate growth in the Taiwan cosmetics and toiletries market.

The lifting of import restrictions on cosmetics also contributed to growth in the market. The 1992 Free Trade Law allowed the practice of so-called parallel importing, thereby enabling trading companies to import any brand of skincare product, no longer limiting imports to the principle's local agent.

A large proportion of demand for cosmetics is for facial moisturisers and make-up, lipstick, eye make-up, nail care products and cleansing foam. The most important reason for such demand is the desire to avoid ageing, skin damage by the sun and pollutants.

Environmentally friendly products and those containing natural ingredients appear to be more popular in Taiwan, and this has boosted growth, as such products tend to be more expensive than alternative products available in the market.



Skincare products was the biggest sector throughout the period of 1996-2000, and accounted for more than 30% of the market's total value in 2000. While the sector was not as important to overall market growth as, for example, colour cosmetics, sales were boosted by the introduction of new products with technological innovations addressing the needs of consumers.

Products with whitening, anti-ageing and sun-protection functions, or which contained natural ingredients, were well received. However, despite remaining the largest sector in 2000, skincare saw its share of the market eroded by the increased popularity of products in other sectors, particularly colour cosmetics.

Taiwan Retail Sales of Cosmetics and Toiletries by Sector

Retail Sales (NT\$mn)	1996	1997	1998	1999	2000
Baby care	829	918	1,008	1,033	1,110
Bath & shower products	4,335	4,451	4,520	4,646	4,843
Deodorants	217	226	231	234	238
Hair care	7,676	8,231	8,554	8,846	9,254
Colour cosmetics	7,281	9,623	10,783	10,871	11,960
Men's grooming products	1,075	1,057	951	954	987
Oral hygiene	6,253	6,961	7,516	7,959	8,498
Fragrances	3,707	4,382	4,763	4,627	4,980
Skincare	15,234	15,704	16,340	17,170	18,334
Sun care	312	323	336	343	361
TOTAL	46,918	51,875	55,002	56,681	60,564

Source: Euromonitor from 'The Market for Cosmetics and Toiletries in Asia-Pacific', 2001

As shown in the table below, skincare products are expected to see constant value growth of almost 37% over the forecast period. Although this sector is already mature, new sales will be stimulated by the release of new products made possible by technology innovations, which help to solve skin problems more effectively. Increasingly serious environmental problems and stressful workloads will further boost demand for better skincare products. Anti-ageing products will continue to be popular as levels of disposable income rise.

Forecast Taiwan Retail Sales of Cosmetics and Toiletries by Sector

Retail Sales (NT\$mn)	2001	2002	2003	2004	2005
Baby care	1,178	1,251	1,330	1,416	1,508
Bath & shower products	4,981	5,127	5,283	5,452	5,632
Deodorants	240	243	246	250	255
Hair care	9,553	9,877	10,216	10,578	10,962
Colour cosmetics	12,927	13,984	15,129	16,375	17,714
Men's grooming products	1,008	1,038	1,075	1,117	1,162
Oral hygiene	8,876	9,287	9,726	10,197	10,702
Fragrances	5,258	5,560	5,880	6,214	6,568
Skincare	19,367	20,545	21,871	23,346	25,081
Sun care	373	388	405	424	446
TOTAL	63,761	67,299	71,163	75,370	80,028

Source: Euromonitor from 'The Market for Cosmetics and Toiletries in Asia-Pacific', 2001

Hong Kong cosmetics industry

Recovering from the Asian economic crisis, Hong Kong's cosmetics market reached sales of HK\$7.8bn in 2000, up 4% YoY. This was achieved in an environment of deflationary pressure.

The relatively low percentage of sales generated by the traditionally essential sectors, such as oral hygiene, hair care and bath and shower products is a testament to the development of the



market. The more ‘luxury’ sectors, specifically colour cosmetics, fragrances and skincare products, accounted for a larger percentage of sales than the more basic products.

As a developed market, intensified multinational competition has resulted in heavy price discounting of products in mature sectors such as hair care and bath and shower products, which has constrained value growth. The increasing number of specialist discount shops selling premium brands of cosmetics products has also contributed to this threat.

However, with tourist arrivals returning to pre-crisis levels and renewed consumer confidence, income-sensitive items such as premium fragrances, make-up and skincare products all experienced good value growth in 2000. The market was spurred by the introduction of more sophisticated products backed by aggressive advertising campaigns and in-store promotions, and this was especially prominent at the premium end of the make-up and skincare sectors.

Basic products such as bath and shower products, hair care, oral hygiene and, to a certain extent, baby care, are generally perceived as necessities and therefore benefit from constant demand and growth in line with population increases.

Hong Kong Retail Sales of Cosmetics and Toiletries by Sector

Retail Sales (HK\$mm)	1996	1997	1998	1999	2000
Baby care	217.5	234.7	245.3	255.7	265.6
Bath & shower products	683.1	772.4	821.7	871.2	917.6
Deodorants	34.4	37.2	38.9	40.4	42.1
Hair care	854.5	925.2	973.8	996.2	1,025.6
Colour cosmetics	1,046.6	1,132.2	1,190.3	1,245.8	1,307.5
Men’s grooming products	178.0	190.4	197.1	202.7	210.2
Oral hygiene	611.0	649.1	670.2	685.7	703.7
Fragrances	950.0	1,047.5	1,099.6	1,125.2	1,157.3
Skincare	1,823.4	1,970.0	2,062.8	2,084.7	2,180.5
Sun care	13.0	13.8	14.4	14.8	15.3
TOTAL	6,411.4	6,972.6	7,314.1	7,522.4	7,825.3

Source: Euromonitor from ‘The Market for Cosmetics and Toiletries in Asia-Pacific’, 2001

In 2000, despite deflationary pressure, high unemployment and lingering signs of recession, the market registered positive growth.

Tourist arrivals remain an important economic indicator of Hong Kong’s economy. It is also an important driver of the overall cosmetics market, as tourists are responsible for a good percentage of the value sales of products such as fragrances and skincare products. At end-2000, the government released the latest statistics of tourist arrivals, which confirmed that tourist arrivals were back to the pre-crisis levels of 1997 and are expected to increase by an annual rate of 10% until 2005.

The increasingly polluted environment will foster greater demand for more sophisticated skincare products to counter the ill effects of pollution. Manufacturers will continue to develop value-added products to meet demand, which will boost value sales.

A full recovery in the local economy in the next few years will revive consumer confidence and boost purchasing power. Some value growth will come from consumers moving up to premium brands from mass-market brands.

The increasing female workforce and the trend towards greater awareness of personal grooming among men are also expected to underpin market growth over the forecast period.



Forecast Hong Kong Retail Sales of Cosmetics and Toiletries by Sector					
Retail Sales (HK\$m)	2001	2002	2003	2004	2005
Baby care	275.9	285.8	294.6	303.0	312.9
Bath & shower products	968.1	1,025.5	1,091.8	1,159.0	1,225.9
Deodorants	44.0	46.1	48.8	51.4	53.9
Hair care	1,059.7	1,101.2	1,151.8	1,201.7	1,250.2
Colour cosmetics	1,375.2	1,454.8	1,548.9	1,644.5	1,740.2
Men's grooming products	218.3	228.2	240.3	252.3	264.2
Oral hygiene	723.6	747.7	776.9	804.5	830.8
Fragrances	1,192.7	1,286.7	1,398.7	1,514.8	1,634.7
Skincare	2,285.7	2,407.3	2,549.0	2,691.3	2,831.8
TOTAL	8,159	8,599.8	9,118.1	9,640.6	10,163.4

Source: Euromonitor from 'The Market for Cosmetics and Toiletries in Asia-Pacific', 2001

3. Risk Factors

Increased competition from the PRC's entry to the WTO

Currently, cosmetic products imported into the PRC and Taiwan are subject to duties of 22-150% and 5-12.5%, respectively. With accession to the World Trade Organisation, the PRC's and Taiwan's cosmetics markets may further open up, and import duties on cosmetic products may be further reduced. This will make it easier for cosmetic products to be imported to the PRC and Taiwan, thereby increasing competition among cosmetic manufacturers and traders.

Dependence on franchise beauty centres

The group's business relies heavily on franchise programmes with beauty centres for the purchase, resale and distribution of its beauty, skincare and aromatherapy products. At present, the group maintains a total of 1,574 franchise agreements with beauty centres in the PRC and Taiwan for an initial term of two years, all of which will expire in 2004, but will be automatically extended until a notice of termination is given by either party.

The following table sets out the percentage of sales to the franchisees to the group's total turnover for the three years ended 31 December 2000 and the ten months ended 31 October 2001.

Y/E	12/98	12/99	12/00	10M01
% of sales to franchisees to total turnover	68.23	65.98	57.68	62.06

Thus, the performance of the group depends heavily on its ability to maintain and develop franchise arrangements.