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If you have sold or transferred all your shares in Natural Beauty Bio-Technology Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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自然美
natural beauty

Natural Beauty Bio-Technology Limited

自然美生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code:157)

DISCLOSEABLE AND CONNECTED TRANSACTION

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of 10% equity interest in NB Sanlian by NB Shanghai pursuant to the Acquisition Agreement;
“Acquisition Agreement”	the equity transfer agreement dated 3 May 2006 made between NB Shanghai and Chong Ming in relation to the Acquisition;
“Board”	the board of directors of the Company;
“Chong Ming”	Chong Ming County Sanlian Investment Development Company* (崇明縣三聯投資發展公司), a collective enterprise established in the PRC;
“Company”	Natural Beauty Bio-Technology Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 157);
“Connected Person”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Latest Practicable Date”	19 May 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“NB Sanlian”	Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd* (上海自然美三聯化妝品有限公司), a limited liability company established in the PRC;
“NB Shanghai”	Shanghai Natural Beauty Cosmetics Co., Ltd* (上海自然美化妝品有限公司), a subsidiary of the Company established in the PRC;

DEFINITIONS

“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong and Taiwan;
“Preliminary Agreement”	the agreement dated 20 March 2006 made between NB Shanghai and Chong Ming in relation to the Acquisition;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shares”	ordinary shares of HK\$0.10 each of the Company;
“Shareholders”	shareholders of the Company; and
“Stock Exchange”	the Stock Exchange of Hong Kong Limited.

Note: the figures in RMB are converted into HK\$ at the rate of RMB1 = HK\$0.9685 throughout this circular for indication purposes only.

** For identification purposes only*

LETTER FROM THE BOARD



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Natural Beauty Bio-Technology Limited

自然美生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code:157)

Board of Directors:

Executive Directors

TSAI Yen Yu (*alias TSAI Yen Pin*)

LEE Ming Ta (*alias LEE Ming Tah*)

SU Chien Cheng

SU Sh Hsyu

Independent Non-executive Directors:

YEH Liang Fei

CHEN Shieh Shu Chen

CHEN Ching

Company Secretary:

CHAN Yan Kwan, Andy

Registered office:

P. O. Box 309

Ugland House

South Church Street

George Town

Grand Cayman

Cayman Islands

British West Indies

Principal Place of Business:

17th Floor

Chuang's Tower

30-32 Connaught Road Central

Hong Kong

24 May 2006

Dear Shareholder(s),

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

The Company announced on 3 May 2006 that NB Shanghai had entered into the Preliminary Agreement with Chong Ming, pursuant to which NB Shanghai agreed to acquire the equity interest held by Chong Ming in NB Sanlian. The Preliminary Agreement was superseded and replaced by the Acquisition Agreement entered into by NB Shanghai and Chong Ming on 3 May 2006, pursuant to which NB Shanghai agreed to acquire 10% equity interest in NB Sanlian from Chong Ming at a total consideration of RMB800,000 (approximately HK\$774,800).

Chong Ming is a Connected Person of the Company by virtue of it being a substantial shareholder (as defined in the Listing Rules) of a subsidiary of the Company and the Acquisition therefore constitutes a connected transaction for the Company. As the applicable percentage ratios (as defined in the Listing Rules) are more than 2.5% but less than 25%

LETTER FROM THE BOARD

and the total consideration is less than HK\$10,000,000, the Acquisition is exempted from independent shareholders' approval. The purpose of this circular is to provide you with further information in relation to the Acquisition.

THE PRELIMINARY AGREEMENT

On 20 March 2006, NB Shanghai and Chong Ming entered into a legally binding Preliminary Agreement under which NB Shanghai agreed to acquire and Chong Ming agreed to sell the 10% equity interest held by Chong Ming in NB Sanlian for a total consideration of RMB800,000 (approximately HK\$774,800). The Preliminary Agreement, for which the Company had not issued an announcement due to an inadvertent oversight, recorded the preliminary understanding between the parties for the purpose of facilitating further discussion and obtaining necessary approvals in the PRC. The Preliminary Agreement has been superseded and replaced by the Acquisition Agreement.

THE ACQUISITION AGREEMENT

(i) Date

3 May 2006

(ii) Parties

Vendor: Chong Ming

Purchaser: NB Shanghai

(iii) Subject of the Acquisition

Pursuant to the Acquisition Agreement, NB Shanghai agreed to acquire from Chong Ming and Chong Ming agreed to sell to NB Shanghai 10% equity interest in NB Sanlian for a total consideration of RMB800,000 (approximately HK\$774,800).

(iv) Consideration

Chong Ming has been a passive investor of NB Sanlian as it had not made any further capital contributions to NB Sanlian since its incorporation and had not been involved in its management or operations. Furthermore, Chong Ming had already received investment returns as equity holder of NB Sanlian throughout the years. Therefore, after arm's length negotiations between the parties and with reference to the capital contribution of Chong Ming in NB Sanlian, which was RMB800,000, Chong Ming agreed to sell to the Company its 10% interest at RMB800,000 (approximately HK\$774,800).

The consideration has been paid to Chong Ming in cash from internal resources of the Group.

Completion of the Acquisition Agreement is not subject to any conditions precedent and the Acquisition has been completed as at the date of this circular.

LETTER FROM THE BOARD

INFORMATION ON NB SANLIAN

NB Sanlian is a limited liability company incorporated under the laws of the PRC in May 2001 between NB Shanghai and Chong Ming with a registered capital of RMB8,000,000 of which 90% was owned by NB Shanghai and 10% was owned by Chong Ming. NB Sanlian is principally engaged in the sales and marketing of the Group's products, provision of beauty services and management of the Group's franchisees in the PRC.

Based on the financial statements of NB Sanlian, which were prepared in accordance with accounting principles generally accepted in the PRC, the audited profit before taxation for the year ended 31 December 2004 and 2005 were RMB44,520,562 (approximately HK\$43,118,164) and RMB63,451,285 (approximately HK\$61,452,569), respectively, whereas the audited profit after taxation and extraordinary items for the same period were RMB35,541,954 (approximately HK\$34,422,382) and RMB44,751,958 (approximately HK\$43,342,271), respectively.

Accordingly, the audited profit before taxation for the year ended 31 December 2004 and 2005 attributable to the subject of the Acquisition (being 10% equity interest of NB Sanlian) were RMB4,452,056.20 (approximately HK\$4,311,816.40) and RMB6,345,128.50 (approximately HK\$6,145,256.90), respectively, whereas the audited profit after taxation and extraordinary items for the same period attributable to the subject of the Acquisition were RMB3,554,195.40 (approximately HK\$3,442,238.20) and RMB4,475,195.80 (approximately HK\$4,334,227.10), respectively.

The net asset value of NB Sanlian as at 31 December 2005 amounted to RMB236.5 million (approximately HK\$229.1 million). Accordingly, the net asset value of the subject of the Acquisition (being 10% equity interest of NB Sanlian) was RMB23.65 million (approximately HK\$22.91 million).

REASONS FOR AND BENEFITS OF THE ACQUISITION

Pursuant to the recently amended PRC Company Laws, NB Sanlian is permitted to be registered and operated as a wholly-foreign owned entity. The Board considers this an opportune time to carry out the Acquisition and believes that the management efficiency of Group can be further enhanced if NB Sanlian becomes a wholly-owned subsidiary of the Company.

Chong Ming had not appointed any director to the board of directors of NB Sanlian prior to the Acquisition and the composition of NB Sanlian's board of directors, which comprised of directors all nominated by NB Shanghai, has remained unchanged since the completion of the Acquisition.

The Directors (including the independent non-executive Directors) believe the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE ACQUISITION

The Acquisition has no material effect on the earnings and liabilities of the Group. Although the net asset value and equity of the Group will be reduced by RMB800,000 (approximately HK\$774,800), the Company considers that such decrease is not material with respect to the consolidated net asset value of the Company of approximately HK\$820.3 million as at 31 December 2005.

DISCLOSEABLE TRANSACTION

As the percentage ratio of each of the revenue test and the profits test in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

CONNECTED TRANSACTION

Chong Ming is a collective owned enterprise established in the PRC and is an investment holding company.

Chong Ming is a Connected Person of the Company by virtue of it being a substantial shareholder (as defined in the Listing Rules) of a subsidiary of the Company and the Acquisition therefore constitutes a connected transaction for the Company. As the applicable percentage ratios (as defined in the Listing Rules) are more than 2.5% but less than 25% and the total consideration is less than HK\$10,000,000, the Acquisition is exempted from independent shareholders' approval.

GENERAL

The Group is principally engaged in the sale of cosmetics products and provision of beauty services. NB Shanghai is a subsidiary of the Company and its principal business is the production and sale of skin care and beauty products.

Yours faithfully,
By Order of the Board
Natural Beauty Bio-Technology Limited
Su Chien Cheng
Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company and their associates in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO); or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company ("Model Code") were as follows:

Interests in Shares

Name	No. of Shares held (Long position)		Aggregate % to the total issued share capital
	Family interests	Corporate interests	
TSAI Yen Yu	–	1,500,000,000 (Note 1)	75.00%
SU Chien Cheng	–	225,000,000 (Note 2)	11.25%
SU Sh Hsyu	–	225,000,000 (Note 2)	11.25%
LEE Ming Ta	1,500,000,000 (Note 1)	–	75.00%

Notes:

- (1) The two references to 1,500,000,000 shares relate to the same block of shares. Such block of shares are held by Efficient Market Investments Limited ("Efficient Market") which is beneficially owned as to 70% by Dr. Tsai Yen Yu through Knightcote Enterprises Limited ("Knightcote").

Mr. Lee Ming Ta, the spouse of Dr. Tsai Yen Yu, is deemed to be interested in 1,500,000,000 ordinary shares of the Company.

- (2) The two references to 225,000,000 shares are included in the 1,500,000,000 shares held by Efficient Market which Mr. Su Chien Cheng and Dr. Su Sh Hsyu each has 15% beneficial interest through Knightcote. Mr. Su Chien Cheng and Dr. Su Sh Hsyu are the son and daughter of Dr. Tsai Yen Yu, respectively.

Save as disclosed above, none of the Directors or chief executives of the Company or their associates had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of Shareholders

So far as is known to any Director or chief executives of the Company, as at the Latest Practicable Date, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions of Substantial Shareholders in Shares

Interests in Shares

Name	No. of Shares held (long position)	Nature of Interest	Aggregate % to the total issued share capital of the Company
Efficient Market	1,500,000,000 (Note 1)	Beneficial owner	75.00%
Knightcote	1,500,000,000 (Notes 1 and 2)	Beneficial owner and held by a controlled corporation	75.00%
TSAI Yen Yu	1,500,000,000 (Notes 2 and 3)	Beneficial owner and held by a controlled corporation	75.00%

Name	No. of Shares held (long position)	Nature of Interest	Aggregate % to the total issued share capital of the Company
SU Chien Cheng	225,000,000 (Note 4)	Beneficial owner and held by a controlled corporation	11.25%
SU Sh Hsyu	225,000,000 (Note 5)	Beneficial owner and held by a controlled corporation	11.25%

Notes:

- (1) Efficient Market is beneficially owned by Knightcote.
- (2) The controlled corporation, Knightcote, is beneficially owned by Dr. Tsai Yen Yu as to 70%, Mr. Su Chien Cheng as to 15% and Dr. Su Sh Hsyu as to 15%.
- (3) The shares are attributable to Dr. Tsai Yen Yu in respect of her 70% interest in Knightcote.
- (4) The shares are attributable to Mr. Su Chien Cheng in respect of his 15%% interest in Knightcote.
- (5) The shares are attributable to Ms. Su Sh Hsyu in respect of her 15%% interest in Knightcote.
- (6) Dr. Tsai Yen Yu, Mr. Su Chien Cheng and Ms Su Sh Hsyu are directors of Efficient Market and Knightcote.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

3. COMPETING BUSINESS INTERESTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

4. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company or any of its subsidiaries which was not determinable by the Group within one year without payment of compensation, other than statutory compensation.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Group were made up.

7. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

None of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

Since 31 December 2005, being the date to which the latest audited financial statements of the Group were made up, none of the Directors has any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to or by any member of the Group, or which are proposed to be acquired or disposed of or leased to or by any member of the Group.

8. MISCELLANEOUS

- (a) The company secretary of the Company is Chan Yan Kwan, Andy, CPA, FCCA.
- (b) The qualified accountant of the Company is Chan Yan Kwan, Andy, CPA, FCCA.
- (c) The registered office of the Company is at P. O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (d) The principal place of business of the Company is at 17th Floor, Chuang's Tower. 30-32 Connaught Road Central, Hong Kong.

- (e) The branch share registrars of the Company is Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (f) The principal share registrars of the Company is the Bank of Bermuda.
- (g) All references to times in this circular refer to Hong Kong times.
- (h) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Preliminary Agreement and Acquisition Agreement are available for inspection during normal business hours at Unit 3512, 35/F, The Center, 99 Queen's Road Central, Hong Kong for a period of 14 days from date of this circular.