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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: 00157)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

RESULTS

The directors of Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Company") are pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative figures for 2009, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	4	**485,389**	538,092
Cost of sales		**(130,007)**	(122,913)
Gross profit		**355,382**	415,179
Other income	6	**17,523**	20,772
Distribution and selling expenses		**(146,828)**	(120,299)
Administrative expenses		**(125,009)**	(109,093)
Other expenses		**(25,220)**	(19,806)
Profit before tax		**75,848**	186,753
Income tax expense	7	**(45,138)**	(42,830)
Profit for the year	8	**30,710**	143,923
Other comprehensive income:			
Exchange differences arising on translation		**33,292**	2,559
Total comprehensive income for the year		**64,002**	146,482
Profit for the year attributable to:			
Owners of the Company		**31,303**	149,636
Non-controlling interests		**(593)**	(5,713)
		30,710	143,923
Total comprehensive income attributable to:			
Owners of the Company		**64,563**	152,169
Non-controlling interests		**(561)**	(5,687)
		64,002	146,482
Earnings per share	10		
Basic		**HK1.6 cents**	HK7.5 cents
Diluted		**N/A**	HK7.5 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Investment properties		**5,251**	4,710
Property, plant and equipment		**232,078**	217,760
Prepaid lease payments		**9,636**	9,562
Goodwill		**26,640**	25,833
Available-for-sale investments		**–**	3,926
Deferred taxation assets		**–**	3,016
		273,605	264,807
Current assets			
Inventories		**46,725**	89,076
Trade and other receivables	*11*	**44,392**	85,382
Prepaid lease payments		**289**	278
Pledged bank deposits		**432**	430
Bank balances and cash		**575,488**	559,346
		667,326	734,512
Current liabilities			
Trade and other payables	*12*	**126,102**	93,836
Deferred income		**10,555**	10,290
Taxation payable		**9,045**	14,490
		145,702	118,616
Net current assets		**521,624**	615,896
Total assets less current liabilities		**795,229**	880,703
Non-current liabilities			
Retirement benefit obligations		**10,493**	11,875
Deferred taxation liabilities		**2,102**	–
		12,595	11,875
		782,634	868,828
Capital and reserves			
Share capital		**200,210**	200,210
Reserves		**582,277**	667,872
Equity attributable to owners of the Company		**782,487**	868,082
Non-controlling interests		**147**	746
Total equity		**782,634**	868,828

Notes:

1. GENERAL

The Company was incorporated in Cayman Islands on 29 June 2001 as an exempted company with limited liability. Its shares have been listed on The Stock Exchange of Hong Kong Limited since 28 March 2002. Its ultimate parent and immediate parent are Starsign International Limited and Standard Cosmos Limited, respectively, and both were incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the HKICPA.

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of amendment to HKAS 17 has had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendments)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The directors anticipate that application of HKFRS 9, which will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2013, will have no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 will have no significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

The directors of the Company anticipate that the application of other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

4. REVENUE

Revenue represents the net amount received and receivables for (i) goods sold by the Group to outside customers which is stated net of sales returns and allowances, (ii) service income from provision of skin treatments, beauty and SPA services and (iii) entrustment fee income for the year, and is analysed as follows:

	2010	2009
	HK$'000	*HK$'000*
Sales of goods	**476,396**	525,945
Service income	**8,943**	11,949
Entrustment fee income	**50**	198
	485,389	538,092

5. SEGMENT INFORMATION

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Chief Executive Officer of the Company, in order to allocate resources to the segment and to assess its performance. The Chief Executive Officer of the Company reviews internal report focuses on geographical segments by location of customers for the purposes of resource allocation and assessment of segment performance. This is the basis upon which the Group is organised.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

1. The PRC
2. Taiwan
3. Others (Hong Kong, Malaysia and Macau)

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2010

	PRC	**Taiwan**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Revenue from external customers	**362,899**	**112,734**	**9,756**	**485,389**
Segment profit (loss)	**104,990**	**636**	**(12,551)**	**93,075**
Unallocated corporate expenses				**(20,110)**
Unallocated income				**2,883**
Profit before tax				**75,848**

For the year ended 31 December 2009

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
Revenue from external customers	395,574	132,299	10,219	538,092
Segment profit (loss)	192,019	15,912	(6,722)	201,209
Unallocated corporate expenses				(18,515)
Unallocated income				4,059
Profit before tax				186,753

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. Unallocated income mainly includes interest income and exchange differences.

Other segment information

	PRC ***HK$'000***	**Taiwan** ***HK$'000***	**Others** ***HK$'000***	**Total** ***HK$'000***
2010				
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	**11,806**	**6,095**	**1,570**	**19,471**
Release of prepaid lease payments	**279**	**–**	**–**	**279**
Loss on disposal of property, plant and equipment	**1,194**	**6,222**	**761**	**8,177**
Allowance for obsolete inventories	**12,268**	**13,679**	**1,462**	**27,409**
Impairment loss (reversal of allowance) on trade receivables	**1,402**	**(763)**	**–**	**639**
Increase in fair value of investment properties	**–**	**(62)**	**–**	**(62)**

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
2009				
Amounts included in the measure of segment profit or loss:				
Depreciation of property, plant and equipment	13,820	5,577	2,192	21,589
Release of prepaid lease payments	278	–	–	278
(Gain) loss on disposal of property, plant and equipment	(598)	–	4	(594)
Allowance for obsolete inventories	10,038	4,064	846	14,948
Impairment loss on trade receivables	–	624	–	624
Increase in fair value of investment properties	–	(137)	–	(137)

Entity-wide disclosures

The Group is principally engaged in (a) manufacturing and selling of skin care, beauty and aromatherapeutic products and (b) provision of skin treatments, beauty and spa services and skin care consulting and beauty training. The analysis of the Group's revenue by type of business for the year are set out in note 4.

The Group's non-current assets excluding deferred taxation assets and available-for-sale investments by geographical location of the assets in the places of domicile of the relevant group entities are detailed below:

	2010	2009
	HK$'000	*HK$'000*
The PRC	**212,937**	192,058
Taiwan	**60,205**	63,033
Others	**463**	2,774
	273,605	257,865

The Group has a very wide customer base, no single customer contributed more than 10% of the Group's revenue for each of the years ended 31 December 2009 and 2010.

6. OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Interest on bank deposits	**2,774**	2,359
Rental income from investment properties	**217**	214
Rental income from other properties and equipment	**2,841**	5,818
Financial refunds (note)	**9,359**	7,490
Increase in fair value of investment properties	**62**	137
Foreign exchange gain	**–**	544
Gain on disposal of property, plant and equipment	**–**	594
Other service income	**–**	2,090
Others	**2,270**	1,526
	17,523	20,772

Note: Pursuant to the local practice of the finance bureau of the provinces in which certain of the PRC subsidiaries operate, the PRC subsidiaries will receive financial refunds in the form of government grants by way of negotiation with the relevant finance bureau with reference to the percentage of income and other taxes paid. However, the refunds are subject to review annually. It is therefore uncertain if these subsidiaries will continue to be eligible for such financial refunds in the future.

7. INCOME TAX EXPENSE

	2010	2009
	HK$'000	*HK$'000*
The charge comprises:		
Taxation in PRC		
Current year	**27,118**	27,008
Under(over)provision in prior years	**4,285**	(2,562)
Dividend withholding tax	**–**	75
	31,403	24,521
Taxation in Taiwan		
Current year	**2,288**	6,741
Under(over)provision in prior years	**4,825**	(53)
Dividend withholding tax	**989**	5,076
	8,102	11,764
Deferred taxation		
Current year	**5,175**	6,545
Attributable to a change in the rate	**458**	–
	5,633	6,545
	45,138	42,830

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Holiday"). The Tax Holiday continued on the implementation of the current EIT Law using the tax rate of 25%. The Tax Holiday will expire in 2011.

Corporate Income Tax in Taiwan is charged at 17% (2009: 25%). The reduction of the Corporate Income Tax in Taiwan to 17% was approved on 15 June 2010. The new rate is effective retrospectively from 1 January 2010 onwards.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries have no accessable profit for both years.

8. PROFIT FOR THE YEAR

	2010 HK$'000	2009 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**5,355**	2,948
Other staff salaries, bonuses and allowances	**108,377**	95,574
Retirement benefits scheme contributions, excluding directors:		
– defined contribution plans	**13,597**	11,980
– defined benefit plan	**606**	599
Equity-settled share based payments	**–**	516
Total staff costs	**127,935**	111,617
Depreciation of property, plant and equipment	**19,471**	21,589
Release of prepaid lease payments	**279**	278
Auditor's remuneration	**2,821**	3,677
Loss (gain) on disposal of property, plant and equipment	**8,177**	(594)
Research and development costs	**1,330**	2,471
Allowance for obsolete inventories	**27,409**	14,948
Cost of inventories recognised as an expense	**102,598**	107,965
Net exchange loss (gain)	**109**	(544)
Impairment loss on trade receivables	**639**	624
Impairment loss on available-for-sale investments	**3,926**	2,000
Write off of trade receivables	**409**	2,675

9. DIVIDENDS

	2010 HK$'000	2009 HK$'000
Dividends recognised as distribution during the year:		
Interim dividend, paid – HK$0.035 per share (2009: HK$0.035 per share)	**70,074**	70,055
Final dividend, paid – HK$0.040 per share for 2009 (2009: HK$0.0335 per share for 2008)	**80,084**	67,021
	150,158	137,076

A final dividend of HK$0.045 per share in respect of the year ended 31 December 2010 (2009: final dividend of HK$0.040 per share in respect of the year ended 31 December 2009), amounting to HK$90,095,000 (2009: HK$80,084,000) in aggregate has been proposed by the directors and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit attributable to the owners of the Company of approximately HK$31,303,000 (2009: HK$149,636,000) and on the weighted average number of 2,002,100,932 (2009: 2,001,183,775) ordinary shares of the Company in issue during the year.

No diluted earnings per share for 2010 was presented since there are no outstanding share option for 2010. No adjustment for diluted earnings per share for 2009 as the exercise price of the outstanding share options was higher than the average market price of shares for 2009.

11. TRADE AND OTHER RECEIVABLES

	2010	2009
	HK$'000	*HK$'000*
Trade receivables	**21,392**	62,088
Less: allowance for doubtful debts	**(2,828)**	(2,688)
	18,564	59,400
Prepayments	**9,551**	11,263
Other receivables	**16,277**	14,719
Total trade and other receivables	**44,392**	85,382

The Group allows a credit period ranging from one to six months to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	2010	2009
	HK$'000	*HK$'000*
Within 180 days	**18,372**	50,875
181 days to 365 days	**192**	4,670
1 to 2 years	**–**	3,580
Over 2 years	**–**	275
	18,564	59,400

12. TRADE AND OTHER PAYABLES

	2010	2009
	HK$'000	*HK$'000*
Trade payables	**13,032**	12,079
Deposits from customers	**20,209**	22,894
Other tax payables	**8,086**	8,917
Other payables	**84,775**	49,946
Total trade and other payables	**126,102**	93,836

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2010	2009
	HK$'000	*HK$'000*
Within 180 days	**13,032**	10,587
181 days to 365 days	**–**	1,492
	13,032	12,079

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by geographical region	2010		2009		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PRC	**362,899**	**74.8%**	395,574	73.5%	(32,675)	-8.3%
Taiwan	**112,734**	**23.2%**	132,299	24.6%	(19,565)	-14.8%
Others	**9,756**	**2.0%**	10,219	1.9%	(463)	-4.5%
Total	**485,389**	**100.0%**	538,092	100.0%	(52,703)	-9.8%

Turnover by Geographical region

During 2010, turnover of the Group dropped 9.8% to HK$485.4 million as compared with HK$538.1 million recorded in 2009, due to a change of trade inventory strategy where we focus more on sell-through (i.e. to the end consumers) instead of sell-in (i.e. to our franchisees). In addition, the group decided to exit certain product lines which resulted in the decline of product sales. As a result, the health of inventory levels at franchisees improved, and selling efforts at distribution channels refocused, both contributing to the long-term positive image of the brand.

Turnover in the PRC market decreased by 8.3% from HK$395.6 million to HK$362.9 million in 2010. The decrease in turnover was mainly due to a reduction of HK$30.4 million in product sales. Meanwhile, service income declined by HK$2.1 million from HK$4.5 million in 2009 to HK$2.4 million in 2010 as a result of closure of three of our loss-making self-owned spas during 2010. In Taiwan, turnover dropped 14.8% to reach HK$112.7 million in 2010 as compared with HK$132.3 million in 2009. There was also two loss-making self-owned spas in Taiwan closed during the year. Affected customers were transferred to independent franchisees.

Sales in other regions such as Hong Kong, Macau and Malaysia decreased slightly by 4.5% to HK$9.8 million due to closure of a self-owned spa in Hong Kong. The turnover contribution from these regions remained insignificant and accounted for 2% of total turnover.

The Group's overall gross profit margin decreased from 77.2% in 2009 to 73.2% in 2010. During the year, the Group decided to discontinue some product lines and shift their focus to more profitable core products. As a result, non-cash provision for slow moving and obsolete inventory were charged to the cost of sales. If the non-cash provision for slow moving and obsolete inventory of HK$27.4 million were excluded, the overall gross profit margin would be approximately 79%.

Turnover by activities	**2010**	2009	Changes	
	HK$'000	*HK$'000*	*HK$'000*	%
Products				
PRC	**360,433**	390,842	(30,409)	-7.8%
Taiwan	**106,726**	125,619	(18,893)	-15.0%
Others	**9,237**	9,484	(247)	-2.6%
Total	**476,396**	525,945	(49,549)	-9.4%
Services				
PRC	**2,416**	4,534	(2,118)	-46.7%
Taiwan	**6,008**	6,680	(672)	-10.1%
Others	**519**	735	(216)	-29.4%
Total	**8,943**	11,949	(3,006)	-25.2%
Entrustment				
PRC	**50**	198	(148)	-74.7%
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**50**	198	(148)	-74.7%

Turnover by activities	**2010**		2009		Changes	
	HK$'000	**%**	*HK$'000*	%	*HK$'000*	%
Products	**476,396**	**98.1%**	525,945	97.7%	(49,549)	-9.4%
Services	**8,943**	**1.9%**	11,949	2.3%	(3,006)	-25.2%
Entrustment	**50**	**0.0%**	198	0.0%	(148)	-74.7%
Total	**485,389**	**100.0%**	538,092	100.0%	(52,703)	-9.8%

Products

The Group is principally engaged in the manufacture and sale of several types of products, namely skin care products, beauty products, aromatherapeutic products, color make up and health supplements, under the "Natural Beauty" brand name. Product sales is the Group's key revenue contributor and is primarily made through franchise spas, self-owned spas and counters in department stores. Products sales in 2010 amounted to HK$476.4 million, or 98.1% of total revenue, representing a decrease of HK$49.5 million when compared with the amount of HK$525.9 million, which accounted for 97.7% of total revenue in 2009. The decrease in product sales was mainly due to change of trade inventory strategy and the exit of certain product lines. Gross margin of product sales for the year decreased from 82.8% in 2009 to 77.2% in 2010. The decrease of product gross margin was due to the non-cash provision for slow moving and obsolete inventory amounting to HK$27.4 million, which has been charged to the cost of sales.

Service Income	**2010**		2009		Changes	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Training income	**734**	**8.2%**	1,261	10.6%	(527)	-41.8%
SPA service income	**7,555**	**84.5%**	9,078	76.0%	(1,523)	-16.8%
Management fee income	**–**	**0.0%**	32	0.3%	(32)	-100%
Others	**654**	**7.3%**	1,578	13.1%	(924)	-58.6%
Total	**8,943**	**100.0%**	11,949	100.0%	(3,006)	-25.2%

Services

Service income includes income from self-owned spa with services provision, training income and management fee received from franchisees, and other service-related income.

The Group provides skin treatment, beauty and spa services through its self-owned spas. The self-owned stores serve as model spas for the Group, as the Group considers it more profitable and cost-efficient as a whole to allocate resources to stimulate overall product sales to franchisees.

Spa service income is generated solely from our self-owned spas as the Group does not share any service income generated from franchised spas with franchisees under the current franchise arrangement. During 2010, service income decreased by 25.2% to HK$8.9 million when compared with HK$11.9 million in 2009. The decrease was mainly due to the closure of six loss-making self-owned spas during 2010.

Entrustment

Entrusted spas, which were previously operated by the Group, are owned by the Group and operated by reputable operators. In order to have a more efficient allocation of financial and human resources, the Group put entrustment arrangements in place in the PRC and its self-owned spas were entrusted to local reputable operators. The operators are responsible for selling the Group's products in their stores and the operators are responsible for all the profits and losses of the operations, while the Group receives a fixed annual entrustment fee from the operators until the Group's initial investment has been repaid. By then, the entrusted spas will become regular franchised spas.

During 2010, entrustment income recorded a further decrease of 74.7% to HK$50,000 when compared with HK$198,000 in 2009. The drop in entrustment income was attributable to the expiration of remaining entrustment arrangements in 2010. There was no entrusted spa as at 31 December 2010.

Other income

Other income mainly comprised rental income of other properties, interest income and financial refunds, which amounted to HK$2.8 million, HK$2.8 million, HK$9.4 million and the remaining balance respectively. Other income decreased by 15.6%, or HK$3.3 million, from HK$20.8 million in 2009 to HK$17.5 million in 2010. The decrease was mainly due to the one-off disposal gain of buildings in Guangzhou and Ningbo of HK$3.3 million in 2009.

Distribution and administrative expenses

The Group's distribution and selling expenses as a percentage of turnover increased significantly to 30.2% in 2010 compared with 22.4% in 2009. Total expenses in dollar terms increased by HK$26.5 million from HK$120.3 million in 2009 to HK$146.8 million in 2010. During 2010, we arranged a cruise event for approximately 1,000 of our franchisees and staff, together with over 70 media reporters and partners for a 6-day-5-night tour on a chartered cruise to Japan and Korea, at which we launched our new concept store, new products and made the announcement of a new incentive scheme effective July 2010. This one-off marketing event recorded HK$10.8 million expenses. Also, there was promotional expense on new concept stores and franchise shop in Carrefour as well as the branding strategy investigation during 2010. Thus, advertising and promotion expenses as a percentage of total turnover was 13.5% in 2010, when compared with 7.7% in 2009. Other key expenses mainly included salary, commission, travel and transportation expenses as well as rental expenses, which amounted to HK$27.0 million, HK$1.1 million, HK$7.8 million and HK$20.1 million respectively.

Total administrative expenses in dollar terms increased by HK$15.9 million to HK$125.0 million in 2010. Administrative expenses as a percentage of turnover increased from 20.3% in 2009 to 25.8% in 2010. The increase in amount and percentage was attributable to the additional salary paid to the new management team (including chief executive officer, chief financial officer and chief operation officer, and vice president of retail management who have been on board since January/February and chief marketing officer joined in July 2010). The administrative cost mainly covered staff costs and retirement benefits, legal and professional fee, traveling expenses, depreciation, rental charges and office and utilities expenses which amounted to HK$63.9 million, HK$12.1 million, HK$8.4 million, HK$7.1 million, HK$14.9 million and HK$5.2 million respectively.

Other expenses

Other expenses increased from HK$19.8 million in 2009 to HK$25.2 million in 2010, representing an increase of HK$5.4 million or 27.3%. Other expenses mainly included the one-time loss on disposal of fixed assets due to the closure of spas which amounted to HK$8.2 million and provision for impairment on available-for-sale investments of HK$3.9 million and impairment loss on investment in a subsidiary amounted to HK$6.5 million.

Profit before tax

A decrease in gross profit and other income, and an increase of administrative expenses, distribution and selling expenses and other expenses, contributed to the decline of 59.4% in profit before tax from HK$186.8 million in 2009 to HK$75.8 million in 2010.

Taxation

Taxation expenses increased 5.4% from HK$42.8 million in 2009 to HK$45.1 million in 2010. The effective tax rates of the Group in 2009 and 2010 were 22.9% and 59.5% respectively. The increase in effective tax rates were due to the payment of under-provided profits tax in previous years amounting to HK$9.1 million in 2010 and losses in certain subsidiaries were not yet tax-deductible, while there was tax refund of HK$2.6 million recorded in 2009. The amount also included dividend withholding tax paid or accrued in Taiwan and PRC subsidiaries amounted to HK$7.4 million.

Profit for the year

As a result, profit for the year declined by 78.7% from HK$143.9 million in 2009 to HK$30.7 million in 2010.

Liquidity and financial resources

Cash generated from operating activities in 2010 was approximately HK$173.9 million (2009: HK$154.1 million). The increase was primarily due to changes in working capital due to the stringent control on accounts receivable and inventory. As at 31 December 2010, the Group had bank balances and cash of approximately HK$575.5 million (as at 31 December 2009: HK$559.3 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2009 and 31 December 2010, the Group's gearing ratios were zero (defined as net debt divided by shareholders' equity) as the Group was in net cash balance as at both year end dates. Current ratios of the Group (defined as current assets divided by current liabilities) as at 31 December 2009 and 31 December 2010 were 6.2 times and 4.6 times respectively. As at 31 December 2010, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and bank balances in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and to meet working capital requirements.

Charges on assets

As at 31 December 2010, the Group had a pledge of bank deposit of HK$432,000 (as at 31 December 2009: HK$430,000) in order to ensure that one of its wholly owned subsidiaries complied with the terms stipulated in the Tenancy Agreement which had been entered into with the landlord so as to obtain a right of use of a self-owned store in Macau.

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of its revenue denominated in Renminbi and New Taiwan Dollars from the PRC and Taiwan as our operations are mainly located in these two areas. As at 31 December 2010, approximately 71.4% (as at 31 December 2009: 46.7%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 10.3% (as at 31 December 2009: 6.8%) in New Taiwan Dollars. The remaining 18.3% (as at 31 December 2009: 46.5%) was denominated in US Dollar, Hong Kong Dollars, Macau Pataca and Malaysia Ringgits. The Group continued to adopt a conservative approach in terms of foreign exchange exposure management. Review of the Group's exposure to foreign exchange risk will be conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

BUSINESS REVIEW

Turnover by geographic region	**2010**	2009	Changes	
	HK$'000	*HK$'000*	*HK$'000*	%
PRC				
Products	**360,433**	390,842	(30,409)	-7.8%
Services	**2,416**	4,534	(2,118)	-46.7%
Entrustment	**50**	198	(148)	-74.7%
PRC Total	**362,899**	395,574	(32,675)	-8.3%
Taiwan				
Products	**106,726**	125,619	(18,893)	-15.0%
Services	**6,008**	6,680	(672)	-10.1%
Entrustment	**–**	–	–	n/a
Taiwan Total	**112,734**	132,299	(19,565)	-14.8%
Others				
Products	**9,237**	9,484	(247)	-2.6%
Services	**519**	735	(216)	-29.4%
Entrustment	**–**	–	–	n/a
Others Total	**9,756**	10,219	(463)	-4.5%

PRC Market

Turnover in the PRC market dropped by 8.3% in 2010 to HK$362.9 million compared with HK$395.6 million in 2009. The decline was mainly due to change of trade inventory strategy from sell-in to sell-through. At the same time, the Group decided to discontinue the business of some product lines and re-focus on more profitable core products. Thus, non-cash provision for slow moving and obsolete inventory of HK$12.3 million were made on inventories and charged to the cost of sales. Product gross margin dropped from 85.0% in 2009 to 81.9% in 2010. If these non-cash provision for slow moving and obsolete inventory were excluded, the product gross profit margin would be approximately 85%.

Profit before tax and net profit decreased by HK$87.0 million and HK$96.8 million respectively for the year under review.

Taiwan Market

Taiwan market also experienced similar trend as in the PRC market. During 2010, product sales in Taiwan market declined by 15% to HK$106.7 million as compared with HK$125.6 million in 2009. Profit before tax and net profit decreased by HK$15.3 million and HK$15.4 million respectively.

Distribution channels

Store Number by Ownership	Franchisee owned Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Grand Total
As at 31 December 2010							
Taiwan	348	7	355	–	–	–	355
PRC	1,034	4	1,038	14	33	47	1,085
Others	33	1	34	–	–	–	34
Total	1,415	12	1,427	14	33	47	1,474

Store Number by Ownership	Franchises owned	Entrusted	Self owned	Total
As at 31 December 2010				
Taiwan	348	–	7	355
PRC	1,034	14	37	1,085
Others	33	–	1	34
Total	1,415	14	45	1,474

Average sales per store	**2010 Average store***	2009 Average store	**2010 Average sales per store**	2009 Average sales per store	**Changes**	
			HK$	*HK$*	*HK$*	%
PRC	**1,139.5**	1,352.0	**318,000**	293,000	25,000	8.5%
Taiwan***	**396.0**	442.0	**292,000**	299,000	(7,000)	-2.3%
Group total**	**1,535.5**	1,794.0	**312,000**	294,000	18,000	6.1%

* Average store number is calculated by (opening period total + closing period total)/2

** Group total does not include Hong Kong, Macau and Malaysia turnover and store count.

*** Taiwan sales figure excluded retail sales of "Fonperi" brand products which are sold by different distribution channel.

The Group principally derives its income from its unique distribution channels, namely spas and counters in department stores. As at 31 December 2010, there were 1,427 spas and 47 counters. All spas provide a variety of services, including hydrotherapy, facial treatment, body care and skin care analysis, whereas counters in department stores usually provide skin care analysis.

As at 31 December 2010, there were a total of 1,415 franchisee spas, and 12 spas and 33 counters directly operated by the Group. There were also 14 counters entrusted to reputable operators.

A total of 97 new stores were opened and 309 stores were closed during the year under review. The closure was mainly due to franchisees' violation of franchise terms as concluded by our store audit carried out during 2010. Franchisees who sold non-Natural Beauty products, failed to achieve minimum targets or failed to attend our free and compulsory training programs would have the franchise arrangement terminated. Through the elimination of those non-compliant stores, a good and consistent franchise network is maintained so as to ensure the service quality for consumers.

Despite the drop in sales and the number of stores, the average sales per store in 2010 showed an improvement from HK$294,000 in 2009 to HK$312,000 in 2010. Average sales per store in PRC in 2010 increased by 8.5% to HK$ 318,000. In Taiwan, average sales per store declined by 2.3% to HK$292,000 in 2010.

With the change in trade inventory strategy, the inventory level in the channel should have reduced and in turn improve the cashflow of the franchisees.

Franchised spas are owned by franchisees and are responsible for the capital investment of their spas. They are obliged to use "Natural Beauty" or "NB" brand for all products in their spas.

Retail Business – Fonperi

During the year under review, the Group has decided to terminate the operation of the Fonperi brand sold through retail channels in Taiwan and focus on its high-margin core business.

Collaboration with CarreFour in China

We had entered into a general cooperation agreement with various subsidiaries of the CarreFour group in China ("CARREFOUR") on 15 October 2010 to strengthen the strategic cooperation relationship in China. The Agreement between the Group and CARREFOUR such that CARREFOUR shall provide for lease, and the Group shall cause its franchisees to lease, suitable premises in CARREFOUR hypermarkets and the newly opened and existing CARREFOUR shopping malls for the retail operation of cosmetics and beauty salon business by using the brand of "Natural Beauty". There were 10 Natural Beauty stores opened in CARREFOUR at the end of 2010.

Research and Development

The Group puts much emphasis on research and development so as to maintain its competitive edge as well as improving the quality of existing products and developing new products. The Group has been collaborating with overseas cosmetic companies on technological development, and biotechnology materials were imported from Europe, Japan and Australia and applied to NB's products. The Group's research and development team comprises a number of overseas consultants with experience and expertise in cosmetics, medical, pharmacy and bio-chemistry. NB's products are constantly enhanced and modified with the use of new ingredients developed by its research and development team. The Group believes that the collaboration of experts with different expertise and experience, together with Dr. Tsai's over 30 years of industry experience and knowledge, will create high quality beauty and skin care products. NB principally uses natural ingredients to manufacture the products and adopts special formulation to cater to the specific needs of women with delicate skin. NB's products are attentive to the natural metabolism of skin with long-lasting effects.

NB has collaborated with a leading researcher in the field of human genome and stem cell technology, in the development of anti-aging NB-1 product family and other products for spot removing, whitening, anti-allergy and slimming. With Dr. Tsai's over 30 years of experience in the beauty and skin care industry and the strong professional portfolio of our research and development staff members, NB enjoys competitive advantages in the research and development of beauty and skin care products.

Flagship Products

Our flagship product, NB-1 products family includes anti-aging NB-1 series, NB-1 Whitening series, NB-1 anti-allergy, NB-1 pore refining series, etc. During 2010, over 361,000 sets/bottles (2009: 331,000 sets/bottles) of NB-1 family products were sold with a turnover of HK$180.4 million (2009: HK$210.8 million), accounting for more than one-third of total product sales recorded during the period under review.

During 2010, the Group continued to enrich the product range and launched 11 new products for NB-1 series, 7 new products for aromatherapeutic products and 7 new health supplement products in PRC.

Human Resources

As at 31 December 2010, the Group had a total of 948 employees, of whom 782 were based in the PRC, 157 in Taiwan and 9 in other areas. Total remuneration (excluding directors' emoluments) in 2010 was approximately HK$122.6 million (2009: HK$108.7 million), including retirement benefits cost of HK$14.2 million (2009: HK$12.6 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a regular basis.

The Group's chief executive officer, chief financial officer/chief operation officer and vice president of retail management have been on board since January/February 2010. The chief marketing officer also reported to duty in July 2010. Leveraging the extensive franchise network management and beauty industry experience of the new management team, the Group is confident of the future development of its business.

The Group maintains good relations with its employees and is committed to offering them training. Professional training courses are offered to beauticians employed by the Group and to our franchisees on a regular basis, so as to promote and maintain the quality and consistency of the services provided.

Capital Expenditures

The Group's major capital expenditures were related to self-owned spas, office renovation, IT infrastructure and machinery in its factories. There were HK$37.2 million additions to fixed assets in 2010 (2009: HK$17.1 million), which comprising the new factory in PRC region amounted to approximately HK$22.2 million.

In December 2010, we moved our old Fengxian skin care plant to a new industrial development zone within Fengxian. The new plant is set up at GMP standard so as to upgrade the quality of our skin care products. Meanwhile, with the new production floor layout and consolidation of our production capacity, production productivity will improve. The production at the new plant commences in first quarter of 2011.

Franchisees are responsible for the capital expenditures of their spas.

OUTLOOK

As the PRC government's efforts to develop the domestic demand market are in full force, China's urbanization continually advances and the high-speed growth of disposable income per capita in the urban population continues, we have an optimistic outlook on the PRC's beauty and spa market.

In 2010, we focused on redefining new retail business model, conducting major house cleaning up and building the team and infrastructure. The progress we made in 2010 has built a solid foundation for a rapid growth in 2011 and beyond.

Based on the successful launch of new concept store in 2010, we will continue to focus on adding new concept stores in 2011.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of its shareholders.

Accordingly, the Board has established the audit committee and the remuneration committee with defined terms of reference which are of no less exacting terms than those set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance") as set out in Appendix 14 to the Listing Rules. These committees are chaired by non-executive directors. The Board considers the determination of the appointment and removal of directors to be the Board's collective decision and accordingly, it does not intend to adopt the recommended best practice of the Code on Corporate Governance to set up a nomination committee.

Audit Committee

Ms. Christina Shieu Yeing Ng was appointed as member of the audit committee of the Company with effect from 24 November 2009. Dr. Su Sh Hsyu, Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching resigned and Dr. Su Chien Cheng, Mr. Francis Goutenmacher, Ms. Su Mei Thompson, Mr. Chen Ruey Long and Mr. Yang Tze Kaing were appointed as the members of the audit committee of the Company with effect from 1 February 2010. The Audit Committee has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The audited financial statements of the Company for the year ended 31 December 2010 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

Remuneration Committee

Mr. Patrick Thomas Siewert was appointed as member of the remuneration committee of Natural Beauty with effect from 24 November 2009. Dr. Su Chien Cheng, Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching resigned and Dr. Tsai Yen Yu, Dr. Su Sh Hsyu, Mr. Gregory Michael Zeluck, Mr. Chen Ruey Long and Ms. Su Mei Thompson were appointed as the members of the remuneration committee of the Company with effect from 1 February 2010. The remuneration committee has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of executive directors and senior management and making recommendations to the Board from time to time.

Compliance with the Code on Corporate Governance Practices

The Company recognises the importance of good corporate governance in enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules for the year ended 31 December 2010, except for the following deviation:

Code provision E.1.2

This code provision stipulates that the chairman of the board of a listed issuer should attend the issuer's annual general meeting. Dr. Tsai Yen Yu, the Chairperson of the Company, was unfit to travel under medical advice (due to tooth implant) and was unable to present at the Company's 2010 annual general meeting held on 24 May 2010. The Board had arranged for Mr. Patrick Thomas Siewert, the Vice-Chairman of the Company and a member of the Executive Committee of the Group, who is well versed in all the business activities and operations of the Group, to attend on her behalf and to chair the meeting and to respond to shareholders' questions.

Mr. Francis Goutenmacher, an independent non-executive director of the Company, also attended the AGM.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the review period.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$0.045 per share (2009: final dividend of HK$0.040 per share). The final dividend will be distributed on or around 29 June 2011 to shareholders whose names appear on the register of members of the Company as at the close of business on 13 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 May 2011 to 13 May 2011, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the final dividend, 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 Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 6 May 2011. The final dividend will be distributed on or around 29 June 2011.

PUBLICATION OF FINAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

This annual results announcement is also published on the website of the Stock Exchange and that of the Company at www.nblife.com/ir. An annual report of the Company containing all the information required by paragraph 45 of Appendix 16 of the Listing Rules will be despatched to the shareholders and will be published on the website of the Company and that of the Stock Exchange in due course.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2010 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By order of the Board
Mr. John Hsin Sheng TSENG
Chief Executive Officer

As at the date of this announcement, the board of the Company comprises Dr. Tsai Yen-Yu and Mr. Lee Ming-Ta as executive directors, Dr. Su Chien-Cheng, Dr. Su Sh-Hsyu, Mr. Patrick Thomas Siewert, Mr. Gregory Michael Zeluck, Ms. Janine Junyuan Feng and Ms. Christina Shieu-Yeing Ng as non-executive directors and Mr. Francis Goutenmacher, Ms. Su-Mei Thompson, Mr. Chen Ruey-Long and Mr. Yang Tze-Kaing as independent non-executive directors.

Hong Kong, 24 March 2011