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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

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 2006, together with the comparative figures for 2005, as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	**2006** *HK$'000*	2005 *HK$'000*
Turnover	*4*	**363,746**	357,916
Cost of sales		**(68,725)**	(73,309)
Gross profit		**295,021**	284,607
Other income	*6*	**47,323**	43,135
Distribution costs		**(101,383)**	(127,655)
Administrative expenses		**(59,450)**	(61,961)
Other operating expenses		**(6,881)**	(18,221)
Share of loss of an associate		**(172)**	(60)
Share of loss of a jointly controlled entity		**(5)**	–
Profit before taxation	*7*	**174,453**	119,845
Income tax expense	*8*	**(51,641)**	(38,834)
Profit for the year		**122,812**	81,011
Attributable to:			
Equity holders of the Company		**123,198**	81,092
Minority interests		**(386)**	(81)
		122,812	81,011
Dividends	*9*	**80,000**	61,000
Earnings per share	*10*		
Basic		**HK 6.2 cents**	HK 4.1 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Investment properties		**162,228**	159,653
Property, plant and equipment		**173,479**	178,725
Prepaid lease payments		**9,119**	9,039
Intangible assets		**–**	927
Goodwill		**23,207**	13,898
Interest in an associate		**373**	545
Interest in a jointly controlled entity		**353**	–
Available-for-sale investments		**6,786**	6,786
Deferred taxation assets		**9,437**	4,716
		384,982	374,289
Current assets			
Inventories		**63,573**	56,477
Trade and other receivables	*11*	**164,905**	141,229
Prepaid lease payments		**244**	236
Held-for-trading investments		**27,713**	26,491
Bank balances and cash		**356,243**	338,748
		612,678	563,181
Current liabilities			
Trade and other payables	*12*	**70,198**	82,041
Deferred income		**9,336**	8,489
Taxation payable		**27,638**	15,753
		107,172	106,283
Net current assets		**505,506**	456,898
Total assets less current liabilities		**890,488**	831,187
Non-current liability			
Retirement benefit obligations		**11,317**	10,890
		879,171	820,297
Capital and reserves			
Share capital		**200,000**	200,000
Reserves		**678,739**	613,511
Equity attributable to equity holders of the Company		**878,739**	813,511
Minority interests		**432**	6,786
Total equity		**879,171**	820,297

Notes:

1. **GENERAL**

The Company was incorporated in Cayman Islands on 29 June 2001 as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Knightcote Enterprises Limited, incorporated in British Virgin Islands.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties and financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the 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.

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

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations, except HKFRS 8, will have no material impact on how the results and the financial position of the Group are prepared and presented. The directors are not yet in a position to determine whether HKFRS 8 would have a significant impact on how its results of operations and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) - INT 8	Scope of HKFRS 2[4]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) - INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) - INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) - INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

4. TURNOVER

Turnover represents (i) the net amounts received and receivables for goods sold by the Group to outside customers and 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:

	2006	2005
	HK$'000	*HK$'000*
Sales of goods	**334,560**	322,847
Service income	**24,482**	29,814
Entrustment fee income	**4,704**	5,255
	363,746	357,916

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Geographical segments

The Group's operations are located in the PRC, Taiwan, Hong Kong and Malaysia.

An analysis of the Group's revenue and contribution to segment results and segment assets and liabilities by geographic segments based on customers location, irrespective of the origin of the goods/services, is presented below:

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
For the year ended 31 December 2006				
Turnover	**240,011**	**114,820**	**8,915**	**363,746**
Segment results	**129,269**	**51,425**	**(3,774)**	**176,920**
Unallocated expenses				**(9,087)**
Unallocated income				**6,797**
Share of loss of an associate				**(172)**
Share of loss of a jointly controlled entity				**(5)**
Profit before taxation				**174,453**
Income tax expense				**(51,641)**
Profit for the year				**122,812**

Consolidated balance sheet

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
Assets				
Segment assets	309,616	273,694	5,824	589,134
Interest in an associate	373	–	–	373
Interest in a jointly controlled entity	–	353	–	353
Unallocated assets				407,800
Consolidated total assets				997,660
Liabilities				
Segment liabilities	39,879	41,605	5,305	86,789
Unallocated liabilities				31,700
Consolidated total liabilities				118,489
Other information				
Capital expenditure	8,794	2,142	329	11,265
Depreciation of property, plant and equipment	13,461	6,581	773	20,815
Release of prepaid lease payments	239	–	–	239
Loss on disposal of property, plant and equipment	139	–	462	601
Amortisation of intangible assets	939	–	–	939
Allowance for obsolete inventories	1,027	–	290	1,317
Impairment loss on trade receivables	1,462	69	–	1,531

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
For the year ended 31 December 2005				
Turnover	213,915	137,358	6,643	357,916
Segment results	85,485	49,824	(14,768)	120,541
Unallocated expenses				(6,496)
Unallocated income				5,860
Share of loss of an associate				(60)
Profit before taxation				119,845
Income tax expense				(38,834)
Profit for the year				81,011

Consolidated balance sheet

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
Assets				
Segment assets	273,470	273,189	7,167	553,826
Interest in an associate	545	–	–	545
Unallocated assets				383,099
Consolidated total assets				937,470
Liabilities				
Segment liabilities	48,786	45,522	3,111	97,419
Unallocated liabilities				19,754
Consolidated total liabilities				117,173
Other information				
Capital expenditure	19,697	2,930	2,270	24,897
Depreciation	16,921	6,831	914	24,666
Impairment loss of goodwill	3,192	–	–	3,192
Write off of intangible assets	325	–	–	325
Release of prepaid lease payments	236	–	–	236
Loss on disposal of property, plant and equipment	1,678	–	2,203	3,881
Amortisation of intangible assets	915	–	–	915
Allowance for obsolete inventories	4,436	2,969	1,058	8,463
Impairment loss on trade receivables	793	43	2,475	3,311

Business segments

For management purposes, the Group is currently organised into 2 operating divisions - (i) sale of cosmetic products and provision of beauty services and (ii) leasing of investment properties. In the opinion of the directors, the leasing of investment properties are not considered as the principal activity of the Group, and accordingly, the income from this segment is not included as turnover.

An analysis of the Group's turnover by business segments is presented below:

	Turnover		**Other income**	
	2006 ***HK$'000***	2005 *HK$'000*	**2006** ***HK$'000***	2005 *HK$'000*
Cosmetic products and beauty services	**363,746**	357,916	**–**	–
Investment properties	**–**	–	**6,492**	10,303
Others	**–**	–	**40,831**	32,832
	363,746	357,916	**47,323**	43,135

The following is an analysis of the carrying amount of segment assets and capital expenditure analysed by the business segments in which the assets are located:

	Carrying amount of segment assets		Capital expenditure	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cosmetic products and beauty services	**426,906**	394,173	**11,265**	24,897
Investment properties	**162,228**	159,653	**–**	–
	589,134	553,826	**11,265**	24,897

6. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Rental income from investment properties	**6,172**	5,826
Rental income from other properties	**2,713**	1,853
Interest income on bank deposits	**4,321**	3,297
Financial refunds (note)	**26,506**	19,621
Increase in fair value of investment properties	**320**	4,477
Increase in fair value of held-for-trading investments	**2,476**	2,563
Gain on acquisition of additional interest in a subsidiary	**–**	2,709
Others	**4,815**	2,789
	47,323	43,135

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. These financial refunds are treated as tax exempted by such finance bureaus. However, the refunds and the tax exemption treatment thereof are subject to review annually. It is therefore uncertain if these subsidiaries will continue to be eligible for such financial refunds and the tax exemption treatment thereof in the future.

7. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Staff costs:		
– directors' emoluments	**2,744**	1,089
– other staff costs	**52,347**	56,693
Retirement benefits scheme contributions, excluding directors:		
– contributions to defined contribution plan	**5,161**	5,047
– expenses recognised in respect of defined benefit plan	**933**	944
Total staff costs	**61,185**	63,773
Depreciation of property, plant and equipment	**20,815**	24,666
Amortisation of intangible assets, included in administrative expenses	**939**	915
Total depreciation and amortisation	**21,754**	25,581
Release of prepaid lease payments	**239**	236
Impairment loss on goodwill	**–**	3,192
Auditors' remuneration	**2,862**	2,622
Loss on disposal of property, plant and equipment	**601**	3,881
Write off of intangible assets	**–**	325
Research and development costs	**1,996**	1,306
Allowance for obsolete inventories	**1,317**	8,463
Cost of inventories recognised as expense	**68,725**	73,309
Impairment loss on trade receivables	**1,531**	3,311
Exchange loss (gain)	**1,427**	(249)

8. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Taxation in other jurisdictions		
Current year	**53,983**	35,263
Underprovision in prior years	**2,144**	3,635
	56,127	38,898
Deferred taxation		
Current year	**(4,486)**	(64)
	51,641	38,834

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in Taiwan, certain of the Group's Taiwan subsidiaries are eligible to certain tax concessions.

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

9. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
Interim dividend, paid – HK$0.0140 per share (2005: HK$0.0090)	**28,000**	18,000
Special dividend, paid – HK$0.0060 per share (2005: HK$0.0040)	**12,000**	8,000
Final dividend, paid – HK$0.020 per share (2005: HK$0.0175)	**40,000**	35,000
	80,000	61,000

The final dividend of HK$0.030 (2005: HK$0.020) per share and a special dividend of HK$0.0125 (2005: Nil) per share, amounting to approximately HK$60,000,000 and HK$25,000,000, respectively, have 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 equity holders of the Company is based on the profit attributable to the equity holders of the Company of HK$123,198,000 (2005: HK$81,092,000) and on the number of 2,000,000,000 (2005: 2,000,000,000) ordinary shares of the Company in issue during the year.

No diluted earnings per share has been presented as the Company has no dilutive potential ordinary shares in issue.

11. TRADE AND OTHER RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Trade receivables	**85,990**	77,891
Prepayments and deposits	**20,446**	14,760
Financial refunds receivable	**26,858**	19,206
Other receivables	**31,611**	29,372
Total trade and other receivables	**164,905**	141,229

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 at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
Within 180 days	**73,836**	71,956
181 days to 365 days	**8,937**	5,022
1 to 2 years	**2,944**	307
Over 2 years	**273**	606
	85,990	77,891

The fair value of the Group's trade and other receivables at 31 December 2006 approximates to the corresponding carrying amount.

12. TRADE AND OTHER PAYABLES

	2006	2005
	HK$'000	*HK$'000*
Trade payables	**16,607**	16,593
Deposits from customers	**20,896**	16,088
Other tax payables	**8,618**	15,785
Other payables	**24,077**	33,575
Total trade and other payables	**70,198**	82,041

The following is an aged analysis of trade payables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
Within 180 days	**15,347**	15,949
181 days to 365 days	**16**	–
1 to 2 years	**607**	500
Over 2 years	**637**	144
	16,607	16,593

The fair value of the Group's trade and other payables at 31 December 2006 approximates to the corresponding amount.

13. POST BALANCE SHEET EVENT

Subsequent to 31 December 2006, the Group disposed investment properties with a carrying value of HK$157,758,000 for an aggregate consideration of approximately HK$159,496,000 to an independent third party not connected to the Group. Details of which were set out in the announcement of the Company dated 16 April 2007.

MANAGEMENT DISCUSSION AND ANALYSIS
FINANCIAL REVIEW

Turnover by **geographical region**	**2006**		2005		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PRC	**240,011**	**66.0**	213,915	59.8	26,096	12.2
Taiwan	**114,820**	**31.6**	137,358	38.4	(22,538)	-16.4
Others	**8,915**	**2.4**	6,643	1.8	2,272	34.2
Total	**363,746**	**100.0**	357,916	100.0	5,830	1.6

Average sales per store	2006 Average store*	2005 Average store*	2006 Average sales per store HK$	2005 Average sales per store HK$	Changes HK$	Changes %
PRC	**1,626.0**	1,533.5	**148,000**	139,000	9,000	6.5
Taiwan	**603.5**	530.0	**190,000**	259,000	(69,000)	-26.6
Group total****	**2,275.0**	2,083.5	**160,000**	169,000	(9,000)	-5.3

* Average store number is calculated by (opening period total + closing period total)/2
** Group total does not include Hong Kong and Malaysia turnover and store count

Average sales per store	2006 Average store*	2005 Average store*	2006 Average sales per store HK$	2005 Average sales per store HK$	Changes HK$	Changes %
PRC	**1,626.0**	1,533.5	**148,000**	139,000	9,000	6.5
Taiwan***	**523.0**	530.0	**220,000**	259,000	(39,000)	-15.1
Group total****	**2,194.5**	2,083.5	**166,000**	169,000	(3,000)	-1.8

* Average store number is calculated by (opening period total + closing period total)/2
** Group total does not include Hong Kong and Malaysia turnover and store count.
*** Excluded 161 new retail outlets at the end of 2006

Turnover has slightly increased by 1.6% to HK$363.7 million in 2006 compared to HK$357.9 million in 2005. Robust sales growth in the PRC market (total turnover increased by 12.2% to HK$240.0 million) offset the decrease in turnover in Taiwan due to economic recession in the Taiwan market. The Group's average sales per store decreased by 5.3% from HK$169,000 in 2005 to HK$160,000 in 2006 as 161 retail outlets in Taiwan were only added by the end of year. If these new retail outlets were excluded, average store sales would have declined by 1.8% to HK$166,000.

Turnover in the PRC surged 12.2% or HK$26.1 million to HK$240.0 million due to the increase in product sales by HK$28.8 million, representing a year-on-year growth of 14.3% that is attributable to effective brand and store image revamp program that has commenced in April 2005. As at the end of the reporting period, approximately 1,066 stores of the Group have completed or are in the process of revamping in the PRC market. As a result, average store sales recorded a further growth of 6.5% in the PRC, from HK$139,000 in 2005 to HK$148,000 in 2006.

In Taiwan, turnover for the year decreased by 16.4%, or HK$22.5 million to HK$114.8 million in 2006 as compared to HK$137.3 million in 2005. The drop in turnover was mainly due to recessionary contraction in Taiwan. On the other hand, the Group has just started its store revamp program in Taiwan at the end of the first quarter of 2006 (385 stores completed the revamping exercises as at 31 December 2006) and the effect has yet to be realized.

Other markets, specifically, Hong Kong and Malaysia, include 1 store in Hong Kong and 50 stores in Malaysia as at 31 December 2006. These regions remained generally immaterial and account for approximately 2% of total turnover to the Group.

The overall gross profit margin of the Group increased from 79.5% in 2005 to 81.1% in 2006.

BY ACTIVITIES	**2006**	2005	Variance	Variance
	HK$'000	*HK$'000*	*HK$'000*	*%*
Products				
PRC	**229,740**	200,979	28,761	14.3
Taiwan	**97,374**	117,375	(20,001)	-17.0
Others	**7,446**	4,493	2,953	65.7
Total	**334,560**	322,847	11,713	3.6
Services				
PRC	**5,567**	7,681	(2,114)	-27.5
Taiwan	**17,446**	19,983	(2,537)	-12.7
Others	**1,469**	2,150	(681)	-31.7
Total	**24,482**	29,814	(5,332)	-17.9
Entrustment				
PRC	**4,704**	5,255	(551)	-10.5
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**4,704**	5,255	(551)	-10.5

Turnover by activities	**2006**		2005		Changes	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Products	**334,560**	**92.0**	322,847	90.2	11,713	3.6
Services	**24,482**	**6.7**	29,814	8.3	(5,332)	-17.9
Entrustment	**4,704**	**1.3**	5,255	1.5	(551)	-10.5
Total	**363,746**	**100.0**	357,916	100.0	5,830	1.6

Products

The Group manufactures and sells several types of products, namely skin care products, beauty products, aromatherapeutic products and heath supplements, under the NB and Bio-up brand names. Product sales, as the Group's key revenue contributor, are primarily made through spas and dedicated counters, accounting for HK$334.6 million, or 92.0% of total revenue in 2006, compared to HK$322.8 million, or 90.2% of total revenue in 2005. Gross margin of products increased by 0.5%, from 85.3% in 2005 to 85.8% in 2006.

The increase in products sales was mainly attributable to the HK$28.8 million growth from the PRC market as a result of the successful brand revamping program, including the overall brand image, franchised store image and new product packaging. 221 products in the PRC were repackaged by the end of 2006. These initiatives successfully increased the product sales margins to 85.8% compared to 85.3% in the corresponding period of last year. The Group will continue to increase its margins by further enhancing its package revamp exercise.

Other markets in Hong Kong and Malaysia and only accounted for 2.2% of total product sales for the year.

Service income	2006 HK$'000	%	2005 HK$'000	%	Changes HK$'000	Changes %
Training income	**1,975**	**8.1**	1,557	5.2	418	26.8
SPA service income	**12,110**	**49.5**	16,518	55.4	(4,408)	-26.7
Management fee income	**8,503**	**34.7**	8,093	27.1	410	5.1
Others	**1,894**	**7.7**	3,646	12.3	(1,752)	-48.1
Total	**24,482**	**100.0**	29,814	100.0	(5,332)	-17.9

Services

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

The Group provides skin treatments as well as beauty and spa services through its self-owned spas. Service income are generated from our self-owned spas as the Group does not share any service income generated in the franchised spas with franchisees under the current franchise programme. During the year, income from these services decreased by 26.7% to HK$12.1 million compared to that of 2005, which was mainly attributable to the reduction of service income in the PRC and Hong Kong markets. As one of the spas in the PRC market was forced to close down during 2006 due to the Shanghai government's redevelopment plan, service revenue generated from the PRC decreased by HK$2.1 million. Service revenue of the spa operations in Hong Kong reported a reduction of HK$0.6 million due to the closure of a spa since 1 January 2006. Service revenue of the Taiwan market also reduced by HK$2.5 million due to the economic recession and political instabilities during 2006.

While self-owned stores are necessary to be established as model spas in new markets, the Group considers it will be more profitable and cost-efficient as a whole to allocate resources to stimulate overall product sales.

Nevertheless, the service income generated from training income increased by 26.8% to HK$2.0 million during the year under review, as a result of additional advertising of beauty courses through CCTV-MTV music award sponsorship and other media exposure.

Management fees received from the franchisees also increased by 5.1% to HK$8.5 million, mainly due to the quarterly management fee received from franchisees from PRC.

Other service income represented forfeited franchisee deposits and other service related income. The decrease was mainly due to the one-off forfeiture of franchisee deposits in Taiwan which amounted to HK$1.5 million in 2005.

Entrustment

Entrusted spas are owned by the Group and operated by reputable operators. The spas were previously operated by the Group. In order to allocate our financial and human resources more efficiently, the Group has entrustment arrangements in PRC ranging from one to five years, where our self-owned spas were entrusted to reputable operators in the local areas. The operators will be responsible for all the profits and losses of the operations and will sell the Group's products in their stores, while the Group receives a fixed annual entrustment fee.

The Group believes the entrustment arrangement is mutually beneficial for both the operators and the Group. Local operators can better serve the specific needs of the local customers, and hence generate more product and service revenue. The Group, on the other hand, can secure a steady annual entrustment income while maintaining the distribution location, and to re-allocate our executives to explore new markets.

The entrustment income decreased 10.5% to HK$4.7 million in 2006 compared to HK$5.3 million in 2005. The drop in entrustment income was because certain entrustment arrangements were expired during the year.

Other income
Other income mainly represented the rental income of HK$6.2 million, interest income of HK$4.3 million, financial refunds of HK$26.5 million and increase in fair value of investment properties of HK$0.3 million and others for the remaining balance. Other income increased by 9.7%, or HK$4.2 million from HK$43.1 million in 2005 to HK$47.3 million in 2006. The increase is mainly attributable to the increase in financial refund in PRC of HK$6.9 million due to higher operating profits of PRC subsidiaries; and increase in interest income of HK$1.0 million due to increase in interest rate and average bank balances.

Distribution and administrative cost
The Group's distribution costs as a percentage of turnover decreased from 35.7% in 2005 to 27.9% in 2006. The total costs decreased by HK$26.3 million, from HK$127.7 million in 2005 to HK$101.4 million in 2006. Despite of our increased advertising exposure in various media, the Group's advertising costs and promotional expenses reduced by HK$31.1 million to HK$46.0 million in 2006. Advertising and promotional expenses as a percentage of turnover decreased from 21.6% in 2005 to 14.1% in 2006.

On the other hand, administrative expenses as a percentage of turnover decreased from 17.3% in 2005 to 16.3% in 2006. The cost mainly covered salary, legal and professional fee, depreciation and rental charges. The amount reduced by HK$2.5 million to HK$59.5 million in 2006 compared to HK$62.0 million in 2005, due to the impairment loss on goodwill made in 2005 amounted to HK$3.2 million.

Other operating expenses
Other operating expenses in 2006 totaled HK$6.9 million, reduced by 62.2% compared to HK$18.2 million in 2005, mainly represented the written off of inventory of HK$1.5 million, loss on disposal of fixed assets of HK$0.6 million, bank charges of HK$1.8 million and exchange loss of HK$1.4 million which mainly generated from the dividend and withholding taxes paid outside Taiwan. The main reason for the fluctuation as compared to last year was a HK$3.3 million reduction in the loss of disposal of fixed assets, primarily resulting from the shop revamping exercises in PRC in the previous year. In addition, inventory provision of HK$7.0 million was charged in 2005, partly due to the product repackaging initiative.

Profit before taxation
The increase in gross profit, other income, in couple with the savings in distribution and administrative cost, as well as decrease in other operating expenses, has led to 45.6% surge in profit before tax, from HK$119.8 million in 2005 to HK$174.5 million in 2006.

Taxation
Taxation expenses increased 33.0% from HK$38.8 million in 2005 to HK$51.6 million in 2006. The increase of taxation is mainly due to the higher profits tax paid for the growth in PRC profits. The effective tax rate of the Group for financial year ended 31 December 2005 and 2006 were 32.4% and 29.6% respectively. The drop in effective tax rate is due to effective tax planning in PRC. The relatively high effective tax rate is attributable to taxes being withheld on dividends paid by our Taiwan subsidiaries when the dividends were paid outside of Taiwan. The total withheld tax expense charged by Taiwan tax authority amounted to HK$3.8 million in 2006 (2005: HK$3.2 million).

Net profit for the year
As a result, the net income for the year increased by 51.6% from HK$81.0 million in 2005 to HK$122.8 million in current year.

Liquidity and financial resources

Cash generated from operations for 2006 was approximately HK$150.4 million (2005: HK$220.2 million). The decrease was primarily due to the changes in working capital. As at 31 December 2006, the Group had bank balances and cash of approximately HK$356.2 million (2005: HK$338.7 million) and trading securities (which are mainly quasi-money market funds) of approximately HK$27.7 million (2005: HK$26.5 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2005 and 2006, the Group's gearing ratio was zero (defined as net debt divided by shareholders' equity) as the Group has a net cash balance as at both year end dates. Current ratio of the Group (defined as current assets divided by current liabilities) as at 31 December 2005 and 2006 were 5.3 times and 5.7 times respectively. As at 31 December 2006, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and short term securities in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and working capital requirements.

Charges on assets

Certain freehold investment properties of the Group with a carrying amount of HK$157.8 million (2005: HK$155.3 million) are pledged to a bank. The banking facilities granted by the bank were terminated in 2002 and the charge will be released upon the disposal of the investment properties subsequent to the balance sheet date.

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of its revenue denominated in Renminbi and New Taiwan Dollar from the PRC and Taiwan as its operations are mainly concentrated in these two geographical areas. As at 31 December 2006, approximately 66.9% (2005: 68.1%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 22.2% (2005: 21.4%) was denominated in New Taiwan Dollar and the remaining 10.9% (2005: 10.5%) was denominated in United States Dollars, Hong Kong Dollars and Malaysia Ringgits. The Group continued to adopt a conservative approach in respect 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

By geographic region	**2006** *HK$*	2005 *HK$*	Variance *HK$*	Variance *%*
PRC				
Turnover – Product sales	**229,740**	200,979	28,761	14.3
Turnover – Service	**5,567**	7,681	(2,114)	-27.5
Turnover – Entrustment	**4,704**	5,255	(551)	-10.5
PRC Total	**240,011**	213,915	26,096	12.2
Taiwan				
Turnover – Product sales	**97,374**	117,375	(20,001)	-17.0
Turnover – Service	**17,446**	19,983	(2,537)	-12.7
Turnover – Entrustment	**–**	–	–	n/a
Taiwan Total	**114,820**	137,358	(22,538)	-16.4
Others				
Turnover – Product sales	**7,446**	4,493	2,953	65.7
Turnover – Service	**1,469**	2,150	(681)	-31.7
Turnover – Entrustment	**–**	–	–	n/a
Others Total	**8,915**	6,643	2,272	34.2

PRC Market

The Group has implemented its brand revamping exercise since 2005. During the year of 2006, the benefits of the programme has started to appear in the growth of product sales. The Group's product sales in the PRC increased 14.3% to HK$229.7 million. Gross margin of product sales also recorded a slight improvement from 85.1% to 85.4% in current year.

Our entrustment strategy continued to pay off. The Group entrusted its spas to reputable operators in established areas to enhance cost-efficiency. Entrustment fees and product revenue from the operators has minimized the loss incurred in the initial stage of entrustment programme. Hence the Group's overall gross profit in the PRC increased by HK$25.1 million and the overall gross margin significantly increased from 80.1% to 81.9% in 2006, representing a year-on-year growth of 1.8 percentage points although service revenue and entrustment income have both declined by HK$2.1 million and HK$0.6 million respectively.

Other income was mainly driven up by tax refund, hence operating profit and net profit, have surged by 50.0% and 56.0% respectively in current year, to HK$132.3 million and HK$89.2 million respectively. While operating margin improved from 41.2% in 2005 to 55.1% in 2006, the overall net margin in the PRC also improved from 26.7% in 2005 to 37.2% in 2006.

Taiwan Market

Taiwan has been in economic recession during current year and our brand revamping exercise for Taiwan market has only commenced at the end of the first quarter of 2006. As a result, product sales in Taiwan dropped by 17.0% to HK$97.4 million in 2006. Taiwan started the product repackage process during the year and as a result, the product sales gross margin recorded an improvement from 88.0% in 2005 to 91.2% in 2006. The overall gross margin also recorded a slight improvement from 83.1% in 2005 to 84.9% in current year.

Despite of the drop in the turnover and gross profit in Taiwan, the cost saving in advertising expenses of HK$14.0 million has resulted in the growth of operating profit by 3.7%, or HK$1.9 million in 2006, driven up the operating margin from 38.2% in 2005 to 47.3% in 2006. Net profit improved by 3.4%, or HK$1.6 million, to HK$48.8 million in current year while overall net margin in Taiwan has improved from 34.3% in 2005 to 42.5% in 2006.

Distribution channels

Store Number by Ownership As at 31 December 2006	Franchisee owned Spa	Entrusted Spa	Self-owned Spa	Total Spa	Entrusted Counter	Self-owned Counter	Total Counter	Grand Total
Taiwan	501	–	9	510	161	–	161	671
PRC	1,591	24	5	1,620	20	67	87	1,707
Others	50	–	1	51	–	–	–	51
Total	2,142	24	15	2,181	181	67	248	2,429

Store Number by Ownership As at 31 December 2006	Franchisee owned	Entrusted	Self-owned	Total
Taiwan	501	161	9	671
PRC	1,591	44	72	1,707
Others	50	–	1	51
Total	2,142	205	82	2,429

The Group principally derives income through our unique distribution channels, namely spas and counters in department stores. As at 31 December 2006, there were total 2,429 store outlets, of which 2,181 were spas and 248 were counters. All spas can provide hydrotherapy, facial, body care and skin care analysis to our customers, and counters in department stores usually provide skin care analysis.

As of 31 December 2006, there were total 2,142 franchisee spas and there were 15 spas and 67 counters directly operated by the Group. There were also 24 spas and 181 counters being entrusted to reputable operators.

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

Self-owned spas are primarily set up to act as a model spa for potential franchisees. While there is a need to establish self-owned spas in new markets as model spas, the Group considers it would be more profitable as a whole to allocate resources to stimulate product sales instead of operating our own spas, which will incur higher distribution costs compared to franchisees. The Group has therefore entrusted certain of our spas in explored markets to reputable operators and will evaluate the need of self-owned spas in selective areas.

This entrustment strategy in PRC is proved successful as the overall gross margin has improved from 80.1% in 2005 to 81.9% in 2006, with an additional contribution of HK$25.1 million for current year.

Revamp Brand Image
We recognized the needs to proactively transform our brand image to maintain our competitive edge. The brand revamp can be summarized in the four main areas:

- New Professional Management
- Store-Front Revamp of Existing Franchised Spas
- Product Repackaging
- Investor Relations

New Professional Management
In order to cope with our business growth in the years ahead, the Group has further strengthened our management team. The new Chief Operating Officer in Taiwan and other markets and Chief Operating Officer in China joined the Group in late 2006 and January 2007 respectively. The Group believes that the breadth and depth of the knowledge and experiences of these management team members will enable the group to achieve new heights in the industry.

Store-Front Revamp of Existing Franchised Spas
As the Group has a vast network of franchised spas, while considering the lengthy process for all the franchisees to renovate their spas according to the Group's new franchised store image, the Group has therefore introduced an interim arrangement where the franchisees will be able to revamp their spa with minimum efforts and financial resources by unifying all the shop signs to our award-winning revamped corporate identity. As of 31 December 2006, 1,136 spas in China and 315 spas in Taiwan (totaling 1,451) have completed their store revamp exercise.

Product Repackaging

The Group's brand revamp exercise is also extended to product packaging. In order to have a consistent image, the Group has re-designed all its product packages and simplified the package type of over 200 various forms for more than 700 types of products to 24 standard forms only. A total of 221 (2005: 60) products have changed their product packages by the end of 2006. This has led to a slight improvement of products profit margin in the PRC to 85.4% in 2006 as compared to 85.1% in 2005. We will continue to repackage our existing product lines by phases in 2007 and 2008.

Investor Relations (www.nblife.com)

To facilitate the end customers and franchisees, we have re-launched our websites in PRC in 2005 to realign the revamped image and to enrich the contents. The website provides all sorts of beauty tips, company activities, product information and online shopping to the end customers. The website, also has a Business-to-Business ("B2B") portal for franchisees to order their goods online.

We also recently enhanced our corporate/investor relations section of our website, which is bilingual in English and Chinese to better communicate with investors.

Logistics

We are currently managing the three warehouses in Shanghai, Beijing and Guangzhou to cover the whole PRC. The delivery of products, is currently out-sourced to other logistics companies in China.

Research and Development

In order to maintain its competitive edge, the Group takes research and development seriously with a view to improve the quality of its existing products and develop new products. The Group has been collaborating with overseas cosmetic companies on technological development and imported European, American, Japanese and Australian biotechnology materials and applied them in over 700 NB's products. The Group's research and development team comprises 13 members and 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 new ingredients developed by its research and development team. The Group believes that the collaboration of different expertise and experience within the team together with Dr. Tsai's over 30 years of industry experience and knowledge can help developing high quality beauty and skin care products.

In developing new products, the research and development team will take into account the feedback and advice from senior management of the Group. Prototype of new products will be distributed to over 1,000 of selected senior beauty professionals. In accordance with the outcome of the tests, refinements or modifications to the products may be made, prior to its full commercial launch thus ensuring the quality, effectiveness and safety standard of NB's products. Where a product requires registration with relevant authorities, it will be done prior to the launch in the market. All NB products are assured to meet all relevant regulations.

In addition to NB's dedicated research and development team, 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. Combining Dr. Tsai's over 30 years of experience in the beauty and skin care industry and together with the strong background of its research and development staff, NB has the competitive advantages in the research and development of beauty and skin care products.

Since customers of the spas are regular customers and tend to adhere to the same product lines over years, that was best for their skin types and conditions. Most of our research and development expenses are spent on the extension of existing product lines. Therefore, our research and development expenses are relatively lower than cosmetic companies.

The total research and development costs for the year ended 31 December 2006 amounted to HK$2.0 million (2005: HK$1.3 million).

New Products
After the successful launch of our flagship product, anti-aging NB-1 series in late 2003 and NB-1 Whitening series in 2004, this year the Group also launched NB-1 anti-allergy, pore refining series and six kinds of health supplement to our product line. In 2006, there were over 162,000 sets / bottles (2005: 45,000 sets / bottles) of NB-1 family products were sold with a turnover of HK$120.6 million (2005: HK$45.8 million), which accounted for over one-third of the total product sales during 2006.

In 2006, the Group continued to enrich its product range and launched 36 new products during the year under review.

New Promotional Channels
In 2006, the group has expanded its promotional channels through campus mailer to 50 universities in Beijing, Guangzhou and Shanghai, which consist of approximately 400,000 female population. The mailers have been delivered to each room in student dormitories. Posters associated with the mailers were used in each cafeteria and classroom across all campuses. In addition, campus beauty classes and celebrity events have been held to promote the mailers. This is expected to be an efficient promotional channel for targeting potential NB customers and building brand awareness in tomorrow's customers.

Information Technology
The Group starts to implement ERP system by Oracle to link up the key decision making process throughout the Group's value chain. The ERP system is expected to enhance the Group's information flow, and to enable the generation of more accurate and timely production planning and sales forecast.

The implementation of the ERP in Taiwan was completed and the implementation in PRC is expected to be completed in 2007.

Human Resources
As at 31 December 2006, the Group had a total of 893 employees, of which 693 were based in PRC, 183 in Taiwan and 17 in other areas. Total remuneration (excluding directors' emoluments) for the year ended 31 December 2006 was appropriately HK$58.4 million (2005: HK$62.7 million), including retirement benefits cost of HK$6.1 million (2005: HK$6.0 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a periodical basis.

The Group maintains good employee relations and is committed to provide employee training and development. Professional training courses are offered to beauticians employed by the Group and its franchisees on a regular basis to promote and maintain the quality and consistency of the services provided.

In addition, the Group has adopted a share option scheme on 11 March 2002, to incentivize and reward to eligible participants who contributed to the success of the Group's operations. The Directors may, at their discretion, invite any employee or director of the Group and any qualified person as set out in the scheme, to subscribe for shares. Up to the date of this document, no share option had been granted under the share option scheme.

Capital Expenditures
The Group's major capital expenditures were related to self-owned spas and machinery in our factories. There were HK$11.3 million additions to fixed assets in 2006 (2005: HK$24.9 million), of which in 2005 included a property purchased in Guangzhou for HK$12.9 to expand the regional Training Centre for the southern China region.

Franchisees are responsible for the capital expenditures of their spas.

Since our factories in PRC and Taiwan still have spare capacities, current utilization rate estimated at around 70%. The management does not anticipate the need for any new factory in the near future.

FUTURE PLANS AND STRATEGIES

Natural Beauty has been the leading professional beauty products and spa services provider in Greater China and will continue to maintain its leading position in Taiwan spa market and develop retail market in Taiwan and focusing on capturing the fast expanding PRC market.

The Group has defined plans for expansion and also plans to maximize our revenues and profitability.

Strategies for the expansion of distribution and franchise network:

- Expand retail distributions in Taiwan through 1,300 outlets and initiate retail in China
- Expand training to provide more licensed beauticians to our franchisees
- To increase 400 stores in 2007

With the relentless pursuit of excellence, we are confident that we will continue to realize our strategies and to remain as the leading professional beauty products and spa services provider in Greater China.

OUTLOOK

China

With the robust growth of the China GDP of around 10% and increasing population of the affluent Chinese female consumers, we believe the market size of our spa business is constantly growing, especially in the anti-aging, whitening and well-being aspects. As there are still many areas in China we believe we have not fully explored, we will continue to expand our network to fortify our leading position in the franchise spa arena. We will also leverage on our Taiwan experience to explore the retail market in the second half of this year.

Taiwan

With the approaching of the Taiwan presidential election, we envisage the economy of Taiwan will be bottomed out later this year. We will maintain our leading position in Taiwan spa market and our "Fonperi" retail brand products are expected to be our key growth driver for our Taiwan businesses in 2007.

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 independent 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

The audit committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The financial statements of the Company for the year ended 31 December 2006 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

The remuneration committee comprises three independent non-executive directors of the Company. It 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

None of the Directors of the Company is aware of any information that would reasonably indicated that the Company is not, or was not any part of the accounting period covered by the 2006 financial statements, in compliance of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

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 ended 31 December 2006, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

SHARE OPTION SCHEME

The Company has adopted share option scheme on 11 March 2002 (the "Scheme"). Details of the Scheme are set out in the published annual report of the Company for the year ended 31 December 2006. There were no outstanding options at the beginning and at the end of the period. No option were granted, exercised, cancelled or lapsed during the year ended 31 December 2006.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$0.030 per share (2005: final dividend of HK$0.020) and a special dividend of HK$0.0125 per share (2005: Nil). Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on around 18 July 2007 to shareholders whose names appear on the register of members of the Company as at the close of business on 16 May 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 17 May 2007 to 18 May 2007, 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 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 16 May 2007.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

An annual report of the Company containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board
Dr. Tsai Yen Yu
Chairman

As of the date hereof, the Executive Directors of the Company are Dr. Tsai Yen Yu, Mr. Lee Ming Ta, Mr. Su Chien Cheng and Dr. Su Sh Hsyu. The Independent Non-executive Directors of the Company are Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching.

Hong Kong, 18 April 2007

"Please also refer to the published version of this announcement in The Standard."