

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



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)

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016**

### **HIGHLIGHTS:**

- Turnover decreased by 6.3% to HK\$475.2 million.
- Profit before tax increased by 15.2% to HK\$196.2 million.
- Net profit increased by 8.5% to HK\$148.4 million.
- Final dividend for the year ended 31 December 2016 of HK\$0.0327 per share (2015: HK\$0.0292 per share) and special final dividend of HK\$0.025 per share (2015: nil).

### **RESULTS**

The board of directors (the “**Board**”) of Natural Beauty Bio-Technology Limited (“**Natural Beauty**” or the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2016, together with the comparative figures for 2015, as follows:

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(With comparatives for the year ended 31 December 2015)

|   | Notes | 2016<br>HK\$'000   | 2015<br>HK\$'000   |
|---|-------|--------------------|--------------------|
| Revenue   | 3     | 475,225            | 506,913            |
| Cost of sales   |       | <u>(122,366)</u>   | <u>(109,419)</u>   |
| Gross profit  |       | 352,859            | 397,494            |
| Other income and other gains                                  | 5     | 36,426             | 28,309             |
| Distribution and selling expenses                             |       | (113,142)          | (159,661)          |
| Administrative expenses                                       |       | (73,420)           | (87,154)           |
| Other expenses and other losses                               |       | <u>(6,506)</u>     | <u>(8,596)</u>     |
| Profit before tax   |       | 196,217            | 170,392            |
| Income tax expense  | 6     | <u>(47,814)</u>    | <u>(33,562)</u>    |
| Profit for the year   | 7     | 148,403            | 136,830            |
| <b>Other comprehensive income (expense):</b>                  |       |                    |                    |
| Item that will not be reclassified to profit or loss:         |       |                    |                    |
| Remeasurement of defined benefit pension plan                 |       | 715                | (347)              |
| Item that may be reclassified subsequently to profit or loss: |       |                    |                    |
| Exchange differences arising on translation                   |       | <u>(36,473)</u>    | <u>(44,786)</u>    |
| Total comprehensive income for the year                       |       | <u>112,645</u>     | <u>91,697</u>      |
| Profit for the year attributable to:                          |       |                    |                    |
| Owners of the Company   |       | <u>148,403</u>     | <u>136,830</u>     |
| Total comprehensive income for the year attributable to:      |       |                    |                    |
| Owners of the Company   |       | <u>112,645</u>     | <u>91,697</u>      |
| Earnings per share  | 9     |                    |                    |
| Basic and diluted   |       | <u>HK7.4 cents</u> | <u>HK6.8 cents</u> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT 31 DECEMBER 2016

(With comparatives at 31 December 2015)

|  | Notes | 2016<br>HK\$'000 | 2015<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>Non-current assets</b>                    |       |                  |                  |
| Investment properties                        |       | 7,196            | 6,524            |
| Property, plant and equipment                |       | 173,542          | 187,351          |
| Prepaid lease payments                       |       | 48,296           | 53,796           |
| Goodwill                                     |       | 25,510           | 27,046           |
| Pledged bank deposits                        |       | 1,706            | 3,662            |
| Deferred tax assets                          |       | –                | 608              |
|  |       | <u>256,250</u>   | <u>278,987</u>   |
| <b>Current assets</b>                        |       |                  |                  |
| Inventories                                  |       | 49,842           | 46,905           |
| Trade and other receivables                  | 10    | 84,628           | 54,046           |
| Prepaid lease payments                       |       | 1,127            | 447              |
| Pledged bank deposits                        |       | 1,706            | 5,491            |
| Bank balances and cash                       |       | 428,633          | 502,721          |
|  |       | <u>565,936</u>   | <u>609,610</u>   |
| <b>Current liabilities</b>                   |       |                  |                  |
| Trade and other payables                     | 11    | 132,198          | 117,484          |
| Deferred income                              |       | 6,223            | 6,593            |
| Tax payable                                  |       | 24,305           | 19,560           |
|  |       | <u>162,726</u>   | <u>143,637</u>   |
| <b>Net current assets</b>                    |       | <u>403,210</u>   | <u>465,973</u>   |
| <b>Total assets less current liabilities</b> |       | <u>659,460</u>   | <u>744,960</u>   |
| <b>Non-current liabilities</b>               |       |                  |                  |
| Deferred tax liabilities                     |       | 686              | –                |
| Retirement benefit obligations               |       | 4,101            | 12,332           |
|  |       | <u>654,673</u>   | <u>732,628</u>   |
| <b>Capital and reserves</b>                  |       |                  |                  |
| Share capital                                |       | 200,210          | 200,210          |
| Reserves                                     |       | 454,463          | 532,418          |
| <b>Total equity</b>                          |       | <u>654,673</u>   | <u>732,628</u>   |

Notes:

## 1. GENERAL

The Company was incorporated in Cayman Islands on 29 June 2001 as an exempted company with limited liability and its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 28 March 2002. Its parent and ultimate holding company are Standard Cosmos Limited and Next Focus Holdings Limited, respectively, and both were incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report of the Company.

The Company acts as an investment holding company. The Group is principally engaged in (a) manufacturing and selling of skin care, beauty and aroma-therapeutic products, health supplements and make-up products, and (b) provision of skin treatments, beauty and spa services, skin care consulting and beauty training.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

|  |   |
|--|---|
| Amendments to HKFRS 11                       | <i>Accounting for Acquisitions of Interest in Joint Operations</i>          |
| Amendments to HKAS 1                         | <i>Disclosure Initiative</i>  |
| Amendments to HKAS 16 and HKAS 38            | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> |
| Amendments to HKAS 16 and HKAS 41            | <i>Agriculture: Bearer Plants</i>   |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | <i>Investment Entities: Applying the Consolidation Exception</i>            |
| Amendments to HKFRSs                         | <i>Annual Improvements to HKFRSs 2012 – 2014 Cycle</i>                      |

### Annual Improvements to HKFRSs 2012 – 2014 Cycle

The Group has applied the Annual Improvements to HKFRSs 2012-2014 Cycle for the first time in the current year which include a number of amendments to various HKFRSs as summarised below.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in the currency should be used instead.

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

|                                   |   |
|-----------------------------------|---|
| HKFRS 9                           | <i>Financial Instruments</i> <sup>1</sup>   |
| HKFRS 15                          | <i>Revenue from Contracts with Customers and the related Amendments</i> <sup>1</sup>                      |
| HKFRS 16                          | <i>Leases</i> <sup>2</sup>  |
| Amendments to HKFRS 2             | <i>Classification and Measurement of Share-based Payment Transactions</i> <sup>1</sup>                    |
| Amendments to HKFRS 4             | <i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> <sup>1</sup>               |
| Amendments to HKAS 10 and HKAS 28 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup> |
| Amendments to HKAS 7              | <i>Disclosure Initiative</i> <sup>4</sup>   |
| Amendments to HKAS 12             | <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> <sup>4</sup>                              |
| Amendments to HKFRSs              | <i>Annual Improvements to HKFRSs 2014-2016 Cycle</i> <sup>5</sup>   |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

### HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 which is relevant to the Group is:

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

## **HKFRS 15 Revenue from Contracts with Customers**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarification to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported (e.g. fee on placing and recognition of rebates, sales return) as the timing of revenue recognition may be affected, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the directors of the Company performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosure in the consolidated financial statements.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the directors of the Company performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

## **HKFRS 16 Leases**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosure are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK\$43,967,000 as disclosed in note 27 of the annual report of the Group. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except as described above, the directors of the Company do not anticipate that the application of the remaining new and amendments to HKFRSs will have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements in future.

### 3. 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 and (ii) service income from provision of skin treatments, beauty and Spa services for the year, and is analysed as follows:

|                | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Sales of goods | <b>469,894</b>                 | 500,480                 |
| Service income | <b>5,331</b>                   | 6,433                   |
|                | <b>475,225</b>                 | 506,913                 |

#### 4. 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 (“CODM”), the Chief Executive Officer (“CEO”) of the Company, in order to allocate resources to the segment and to assess its performance. The CEO of the Company reviews internal reports which focus 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 reportable and operating segments under HKFRS 8 are as follows:

1. The People’s Republic of China (“PRC”)
2. Taiwan
3. Others (Hong Kong and Malaysia)

##### Segment revenues and results

The following is an analysis of the Group’s revenue and results from continuing operations by reportable and operating segments.

##### For the year ended 31 December 2016

|                                 | <b>PRC</b><br><i>HK\$’000</i> | <b>Taiwan</b><br><i>HK\$’000</i> | <b>Others</b><br><i>HK\$’000</i> | <b>Total</b><br><i>HK\$’000</i> |
|---------------------------------|-------------------------------|----------------------------------|----------------------------------|---------------------------------|
| Revenue from external customers | <u>386,409</u>                | <u>85,655</u>                    | <u>3,161</u>                     | <u>475,225</u>                  |
| Segment profit (loss)           | <u>177,969</u>                | <u>26,461</u>                    | <u>(4,105)</u>                   | <u>200,325</u>                  |
| Unallocated corporate expenses  |                               |                                  |                                  | (10,295)                        |
| Unallocated income              |                               |                                  |                                  | <u>6,187</u>                    |
| Profit before tax               |                               |                                  |                                  | <u><u>196,217</u></u>           |

##### For the year ended 31 December 2015

|                                 | <b>PRC</b><br><i>HK\$’000</i> | <b>Taiwan</b><br><i>HK\$’000</i> | <b>Others</b><br><i>HK\$’000</i> | <b>Total</b><br><i>HK\$’000</i> |
|---------------------------------|-------------------------------|----------------------------------|----------------------------------|---------------------------------|
| Revenue from external customers | <u>418,524</u>                | <u>84,987</u>                    | <u>3,402</u>                     | <u>506,913</u>                  |
| Segment profit                  | <u>157,231</u>                | <u>25,607</u>                    | <u>4,585</u>                     | <u>187,423</u>                  |
| Expense of share based payment  |                               |                                  |                                  | (9,334)                         |
| Unallocated corporate expenses  |                               |                                  |                                  | (19,418)                        |
| Unallocated income              |                               |                                  |                                  | <u>11,721</u>                   |
| Profit before tax               |                               |                                  |                                  | <u><u>170,392</u></u>           |

The accounting policies of the operating 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 equity-settled share based payments, central administration costs, directors’ salaries and interest income. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment. Segment assets and liabilities are not reported to CODM for the purposes of resource allocation and assessment of segment performance.



## Other segment information

|   | PRC<br><i>HK\$'000</i> | Taiwan<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Segment<br>and<br>consolidated<br>total<br><i>HK\$'000</i> |
|---|------------------------|---------------------------|---------------------------|--|
| <b>2016</b>   |                        |                           |                           |  |
| Amounts included in the measure of segment profit (loss):           |                        |                           |                           |  |
| Depreciation of property, plant and equipment                       | 18,148                 | 4,270                     | 22                        | 22,440   |
| Release of prepaid lease payments                                   | 1,180                  | –                         | –                         | 1,180  |
| Loss on disposal of property, plant and equipment                   | 1,617                  | 159                       | –                         | 1,776  |
| Compensation income arising from termination of a tenancy agreement | (19,094)               | –                         | –                         | (19,094)   |
| Allowance (reversal of allowance) for obsolete inventories          | 293                    | (2)                       | 36                        | 327  |
| Reversal of allowance on trade receivables                          | (414)                  | –                         | –                         | (414)  |
|   | <u>          </u>      | <u>          </u>         | <u>          </u>         | <u>          </u>  |
|   | <i>PRC</i>             | <i>Taiwan</i>             | <i>Others</i>             | <i>Segment</i>   |
|   | <i>HK\$'000</i>        | <i>HK\$'000</i>           | <i>HK\$'000</i>           | <i>and</i>   |
|   |                        |                           |                           | <i>consolidated</i>  |
|   |                        |                           |                           | <i>total</i>   |
|   |                        |                           |                           | <i>HK\$'000</i>  |
| <b>2015</b>   |                        |                           |                           |  |
| Amounts included in the measure of segment profit:                  |                        |                           |                           |  |
| Depreciation of property, plant and equipment                       | 28,107                 | 5,697                     | 28                        | 33,832   |
| Release of prepaid lease payments                                   | 461                    | –                         | –                         | 461  |
| Loss on disposal of property, plant and equipment                   | 7,343                  | –                         | –                         | 7,343  |
| Allowance for obsolete inventories                                  | 3,395                  | 973                       | 49                        | 4,417  |
| Allowance on trade receivables                                      | 4,582                  | –                         | –                         | 4,582  |
|   | <u>          </u>      | <u>          </u>         | <u>          </u>         | <u>          </u>  |

## Geographical information

The Group is principally engaged in (a) manufacturing and sale of a range of products including skin care, beauty and aroma-therapeutic products, health supplements and make-up 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 3.

The Group's non-current assets are presented based on the geographical location of the assets as detailed below:

|         | 2016<br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|---------|-------------------------|-------------------------|
| The PRC | 208,470                 | 232,020                 |
| Taiwan  | 47,740                  | 46,904                  |
| Others  | 40                      | 63                      |
|         | <u>256,250</u>          | <u>278,987</u>          |

## Information about major customers

The Group has a very wide customer base, no single customer contributed 10% or more to the Group's revenue for both 2016 and 2015.

## 5. OTHER INCOME AND OTHER GAINS

|   | 2016<br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Interest on bank deposits   | 6,187                   | 11,721                  |
| Rental income from investment properties                            | 179                     | 23                      |
| Rental income from other properties and equipment                   | 2,115                   | 2,550                   |
| Financial refunds ( <i>Note 1</i> )                                 | 6,498                   | 8,527                   |
| Increase in fair value of investment properties                     | 532                     | 843                     |
| Reversal on tax audit accrual ( <i>note 6</i> )                     | –                       | 2,668                   |
| Compensation income arising from termination of a tenancy agreement | 19,094                  | –                       |
| Others ( <i>Note 2</i> )  | 1,821                   | 1,977                   |
|   | <u>36,426</u>           | <u>28,309</u>           |

*Note 1:* 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 from other taxes paid in the form of government grants by way of negotiation with the relevant finance bureau. 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.

The financial refunds represent unconditional tax refunds received from the local government in compensation for taxes incurred and paid by the PRC operating entities of the Group.

*Note 2:* In 2004, Shanghai Jiangqiao Agriculture Development Co. Ltd. ("Jiangqiao") as lessor and the Group, as lessee entered into a lease agreement to build a spa resort in Jiangqiao County, Jiading District, Shanghai. During the current period, through negotiation, both Jiangqiao and the Group agreed to terminate the agreement in advance. Meanwhile Jiangqiao agreed to pay a compensation amounted to approximately RMB15,983,000 (equivalent to approximately HK\$19,094,000) to the Group.

## 6. INCOME TAX EXPENSE

|   | 2016<br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| The charge comprises:                           |                         |                         |
| Taxation in PRC                                 |                         |                         |
| Current year                                    | 36,542                  | 32,024                  |
| Over provision in prior years                   | (2,982)                 | (6,499)                 |
| Withholding tax on dividends                    | 5,636                   | 8,510                   |
|   | <u>39,196</u>           | <u>34,035</u>           |
| Taxation in Taiwan                              |                         |                         |
| Current year                                    | 3,321                   | 4,900                   |
| Over provision in prior years                   | (9)                     | (1,697)                 |
| Withholding tax on dividends                    | 3,621                   | 2,120                   |
| Under provision of withholding tax on dividends | –                       | 4,936                   |
|   | <u>6,933</u>            | <u>10,259</u>           |
| Taxation in Hong Kong and other jurisdictions   |                         |                         |
| Current year                                    | 1,426                   | 4,518                   |
| Over provision in prior years                   | (899)                   | (2,144)                 |
| Tax refund of changing tax rate                 | –                       | (14,368)                |
|   | <u>527</u>              | <u>(11,994)</u>         |
| Deferred taxation                               |                         |                         |
| Current year                                    | 1,158                   | 1,262                   |
|   | <u>47,814</u>           | <u>33,562</u>           |

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. The statutory withholding income tax rate for non-PRC resident is 10%. As the Company has obtained tax benefit approval from the tax bureau in 2014, which stipulate that the withholding tax rate for Natural Beauty China Holding Limited could be reduced to 5% for the dividend income from July 2011 to June 2017 and 7% for royalty fee from January 2012 to December 2014. Thus, in 2015, the tax authority returned the prior years' over-paid taxes accordingly and disclosed as tax refund of changing tax rate.

Pursuant to the relevant laws and regulations in Taiwan and applicable tax treaty, dividend withholding tax is imposed at a rate of 12.5% under Taiwan-Malaysia tax treaty, and 20% on dividends declared in respect of profits earned by Taiwan subsidiaries that are received by non-local resident entities. In 2015, the Taiwan tax bureau initiated a tax audit on the Taiwan withholding tax affairs of a Taiwan subsidiary of the Group for the years 2012, 2013, 2014 and 2015, and decided that dividend withholding tax rate applies to the Group should be 20%, as the Group is not applicable to Taiwan-Malaysia tax treaty. Accordingly, the Group recognised an under provision of withholding tax on dividends amounting to HK\$4,936,000 and other related expense amounting to HK\$3,159,000 (under other expense) in 2015.

The PRC tax bureau initiated a tax audit on the PRC tax affairs of a PRC subsidiary of the Group for the years 2012 and 2013. During the year ended 31 December 2015, the tax bureau concluded on the tax audit for the said years. Accordingly, the PRC subsidiary paid relevant expenses and reversed over provision of related expense RMB2,216,000 (equivalent to approximately HK\$2,668,000) (under other income) in 2015.

Corporate Income Tax in Taiwan is charged at 17% in both years.

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

## 7. PROFIT FOR THE YEAR

|   | 2016<br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit for the year has been arrived at after charging (crediting): |                         |                         |
| Staff costs:  |                         |                         |
| Directors' emoluments   | 5,323                   | 5,620                   |
| Other staff salaries and allowances                                 | 89,505                  | 96,751                  |
| Retirement benefits scheme contributions, excluding directors:      |                         |                         |
| – defined contribution plans  | 14,790                  | 15,836                  |
| – defined benefit plan  | 352                     | 355                     |
| Expense of share based payment                                      | –                       | 9,334                   |
| Total staff costs   | <u>109,970</u>          | <u>127,896</u>          |
| Depreciation of property, plant and equipment                       | 22,440                  | 33,832                  |
| Cost of inventories recognised as an expense                        | 108,891                 | 95,861                  |
| Release of prepaid lease payments                                   | 1,180                   | 461                     |
| Auditor's remuneration  | 2,999                   | 3,381                   |
| Loss on disposal of property, plant and equipment                   | 1,776                   | 7,343                   |
| Compensation income arising from termination of a tenancy agreement | (19,094)                | –                       |
| Research and development costs                                      | 2,464                   | 3,679                   |
| Allowance for obsolete inventories, included in cost of sales       | 327                     | 4,417                   |
| Advertising and promotion expenses                                  | 28,781                  | 33,809                  |
| Net exchange loss (gain)  | <u>3,110</u>            | <u>(3,477)</u>          |

## 8. DIVIDENDS

|   | 2016<br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Dividends recognised as distribution during the year:   |                         |                         |
| Interim dividend, paid – HK\$0.0410 per share for 2016<br>(2015: HK\$0.0392 per share for 2015) | 82,086                  | 78,482                  |
| Special interim dividend, paid – HK\$0.0250 per share for 2016<br>(2015: Nil)                   | 50,053                  | –                       |
| Final dividend, paid – HK\$0.0292 per share for 2015<br>(2015: HK\$0.03188 per share for 2014)  | <u>58,461</u>           | <u>63,827</u>           |
|   | <u>190,600</u>          | <u>142,309</u>          |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK\$0.0327 per share (2015: final dividend of HK\$0.0292 per share in respect of the year ended 31 December 2015) and a special final dividend of HK\$0.025 per share (2015: nil), amounting to HK\$65,468,700 (2015: HK\$58,461,347) and HK\$50,052,523 (2015: nil) in aggregate, respectively, have been proposed by the directors and are subject to approval by the shareholders at the forthcoming annual general meeting.

## 9. 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\$148,403,000 (2015: HK\$136,830,000) and on the number of 2,002,100,932 (2015: 2,002,100,932) ordinary shares of the Company in issue during the year.

The computation of diluted earnings per share for 2016 and 2015 does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price in both years.

## 10. TRADE AND OTHER RECEIVABLES

|                                    | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|------------------------------------|--------------------------------|-------------------------|
| Trade receivables                  | <b>74,448</b>                  | 47,963                  |
| Less: allowance for doubtful debts | <b>(1,476)</b>                 | (6,753)                 |
|                                    | <b>72,972</b>                  | 41,210                  |
| Prepayments                        | <b>6,063</b>                   | 7,016                   |
| Other receivables                  | <b>5,593</b>                   | 5,820                   |
| Total trade and other receivables  | <b>84,628</b>                  | 54,046                  |

The Group allows an average credit period of 30 to 60 days (2015: 45 days) to its trade customers. The credit period provided to customers can vary based on a number of factors including the customer's credit profile and sales promotion policy. The aging analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods at the end of the reporting period is as follows:

|                          | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|--------------------------|--------------------------------|-------------------------|
| Aged:                    |                                |                         |
| Within credit period     | <b>57,218</b>                  | 31,943                  |
| Credit period – 180 days | <b>15,754</b>                  | 9,267                   |
|                          | <b>72,972</b>                  | 41,210                  |

Included in the Group's receivable balances are debtors with aggregate carrying amount of HK\$15,754,000 (2015: HK\$9,267,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

|                          | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|--------------------------|--------------------------------|-------------------------|
| Aged:                    |                                |                         |
| Credit period – 180 days | <b>15,754</b>                  | 9,267                   |

The directors of the Company assessed the credit quality of those debtors that the balances are past due by reviewing their financial position, the past repayment record and the experience on any recent history of default. The amounts are considered recoverable. The Group does not hold any collateral over these balances.

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits by customer. Limits to customers are reviewed regularly. The majority of the trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

#### Movement in the allowance for doubtful debts

|                                      | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|--------------------------------------|--------------------------------|-------------------------|
| Balance at the beginning of the year | <b>6,753</b>                   | 2,460                   |
| Amounts recovered during the year    | <b>(1,364)</b>                 | (324)                   |
| Allowance on receivables             | <b>950</b>                     | 4,906                   |
| Amounts written off as uncollectible | <b>(4,565)</b>                 | –                       |
| Exchange realignment                 | <b>(298)</b>                   | (289)                   |
|                                      | <hr/>                          | <hr/>                   |
| Balance at the end of the year       | <b>1,476</b>                   | 6,753                   |
|                                      | <hr/> <hr/>                    | <hr/> <hr/>             |

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK\$1,476,000 (2015: HK\$6,753,000), which have been identified with financial difficulties. The Group does not hold any collateral over these balances.

#### 11. TRADE AND OTHER PAYABLES

|                                | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|--------------------------------|--------------------------------|-------------------------|
| Trade payables                 | <b>20,880</b>                  | 14,942                  |
| Deposits from customers        | <b>26,901</b>                  | 36,798                  |
| Other tax payables             | <b>25,654</b>                  | 8,476                   |
| Accruals                       | <b>48,914</b>                  | 47,499                  |
| Other payables                 | <b>9,849</b>                   | 9,769                   |
|                                | <hr/>                          | <hr/>                   |
| Total trade and other payables | <b>132,198</b>                 | 117,484                 |
|                                | <hr/> <hr/>                    | <hr/> <hr/>             |

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

|                     | <b>2016</b><br><i>HK\$'000</i> | 2015<br><i>HK\$'000</i> |
|---------------------|--------------------------------|-------------------------|
| Within 90 days      | <b>20,221</b>                  | 13,239                  |
| 91 days to 365 days | <b>215</b>                     | 54                      |
| Over 365 days       | <b>444</b>                     | 1,649                   |
|                     | <hr/>                          | <hr/>                   |
|                     | <b>20,880</b>                  | 14,942                  |
|                     | <hr/> <hr/>                    | <hr/> <hr/>             |

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Overview

Turnover of the Group in 2016 decreased by 6.3% to HK\$475.2 million compared with HK\$506.9 million in 2015. The decline was mainly due to a decrease of HK\$28.8 million of currency translation as a result of a lower average exchange rate in 2016.

Turnover in the PRC market decreased by 7.7% from HK\$418.5 million in 2015 to HK\$386.4 million in 2016, while turnover in the Taiwan market increased by 0.8% to HK\$85.7 million compared with HK\$85.0 million in 2015.

Sales from other regions, including Hong Kong, Malaysia and Macau, decreased by 7.1% from HK\$3.4 million in 2015 to HK\$3.2 million in 2016. Contribution from these regions remained at an insignificant level of just 0.7% of the Group's turnover.

The Group's overall gross profit margin declined from 78.4% in 2015 to 74.3% in 2016 mainly due to the new PRC Consumption Tax regulations imposed in 2016 and higher promotion discount.

| Turnover by activities | 2016                  |                      | 2015                  |                      | Changes                |                     |
|------------------------|-----------------------|----------------------|-----------------------|----------------------|------------------------|---------------------|
|                        | HK\$'000              | %                    | HK\$'000              | %                    | HK\$'000               | %                   |
| Products               | <b>469,894</b>        | <b>98.9%</b>         | 500,480               | 98.7%                | (30,586)               | -6.1%               |
| Services               | <b>5,331</b>          | <b>1.1%</b>          | 6,433                 | 1.3%                 | (1,102)                | -17.1%              |
| <b>Total</b>           | <b><u>475,225</u></b> | <b><u>100.0%</u></b> | <b><u>506,913</u></b> | <b><u>100.0%</u></b> | <b><u>(31,688)</u></b> | <b><u>-6.3%</u></b> |

#### Products

The Group is principally engaged in manufacturing and sales of a range of products, including skin care, beauty and aroma-therapeutic products, health supplements and make-up products under the "Natural Beauty" brand. Product sales are the Group's key revenue source and primarily come from franchised spas, self-owned spas and concessionary counters at department stores. Product sales in 2016 amounted to HK\$469.9 million, or 98.9% of the Group's total revenue, representing a decrease of HK\$30.6 million or by 6.1% when compared with product sales of HK\$500.5 million in 2015. The decrease in product sales was mainly driven by the currency translation issue mentioned in the paragraph headed "Overview" above.

#### Services

Service income is derived from the self-owned spas' services, training and other services.

The Group provides skin treatment, beauty and spa services through its self-owned spas. Currently the Group has one self-owned spa in China and 3 self-owned spas in Taiwan.

The Group does not share any service income generated from spas run by franchisees under its current franchise arrangements. In 2016, service income decreased by 17.1% to HK\$5.3 million compared with HK\$6.4 million in 2015.

| Service income     | 2016         |               | 2015         |               | Changes        |               |
|--------------------|--------------|---------------|--------------|---------------|----------------|---------------|
|                    | HK\$'000     | %             | HK\$'000     | %             | HK\$'000       | %             |
| Training income    | 401          | 7.5%          | 438          | 6.8%          | (37)           | -8.4%         |
| Spa service income | 4,756        | 89.2%         | 5,347        | 83.1%         | (591)          | -11.1%        |
| Others             | 174          | 3.3%          | 648          | 10.1%         | (474)          | -73.2%        |
| <b>Total</b>       | <b>5,331</b> | <b>100.0%</b> | <b>6,433</b> | <b>100.0%</b> | <b>(1,102)</b> | <b>-17.1%</b> |

| Turnover by geographical region | 2016           |  | 2015           |  | Changes         |              |
|---------------------------------|----------------|--|----------------|--|-----------------|--------------|
|                                 | HK\$'000       |  | HK\$'000       |  | HK\$'000        | %            |
| <b>PRC</b>                      |                |  |                |  |                 |              |
| Products                        | 383,876        |  | 414,933        |  | (31,057)        | -7.5%        |
| Services                        | 2,533          |  | 3,591          |  | (1,058)         | -29.5%       |
| <b>PRC Total</b>                | <b>386,409</b> |  | <b>418,524</b> |  | <b>(32,115)</b> | <b>-7.7%</b> |
| <b>Taiwan</b>                   |                |  |                |  |                 |              |
| Products                        | 82,857         |  | 82,145         |  | 712             | 0.9%         |
| Services                        | 2,798          |  | 2,842          |  | (44)            | -1.5%        |
| <b>Taiwan Total</b>             | <b>85,655</b>  |  | <b>84,987</b>  |  | <b>668</b>      | <b>0.8%</b>  |
| <b>Others</b>                   |                |  |                |  |                 |              |
| Products                        | 3,161          |  | 3,402          |  | (241)           | -7.1%        |
| Services                        | —              |  | —              |  | —               | —            |
| <b>Others Total</b>             | <b>3,161</b>   |  | <b>3,402</b>   |  | <b>(241)</b>    | <b>-7.1%</b> |

### The PRC Market

Despite the slowdown in PRC's economic growth and the keener competition in the cosmetic industry, the turnover in the PRC market decreased by 1.0% in 2016 to RMB332.1 million compared with RMB335.6 million in 2015. However, due to the foreign currency translation factor, the Group's turnover in the PRC market represented in HK dollars decreased by 7.7% in 2016 to HK\$386.4 million compared with HK\$418.5 million in 2015. Gross margin on product sales decreased from 82.0% in 2015 to 76.0% in 2016, as a result of change in PRC Consumption Tax regulations and larger promotion discount on product sales during the period under review.

### The Taiwan Market

The Group's turnover in the Taiwan market increased by 0.8% from HK\$85.0 million in 2015 to HK\$85.7 million in 2016 due to Taiwan economic recovery. Gross margin on product sales decreased by 0.4% from 79.7% in 2015 to 79.3% in 2016, and such change is insignificant.



## **Other income and other gains**

Other income and other gains increased by 28.7% from HK\$28.3 million in 2015 to HK\$36.4 million in 2016, which mainly comprised interest income, rental income from investment properties, financial refunds and compensation income arising from termination of a tenancy agreement of HK\$6.2 million, HK\$2.1 million, HK\$6.5 million and HK\$19.1 million respectively.

## **Distribution and administrative expenses**

Distribution and selling expenses as a percentage of the Group's turnover decreased to 23.8% in 2016 compared with 31.5% in 2015. It decreased by HK\$46.6 million from HK\$159.7 million in 2015 to HK\$113.1 million in 2016. Advertising and promotion expenses decreased to 6.1% of the Group's total turnover in 2016 as compared with 6.7% in 2015, and decreased by HK\$5.0 million from HK\$33.8 million in 2015 to HK\$28.8 million in 2016. Other key expenses include salaries of HK\$44.3 million, travel and entertainment expenses of HK\$4.7 million, depreciation charges of HK\$5.4 million as well as rentals of offices and sales counters of HK\$14.4 million in 2016.

Total administrative expenses decreased by HK\$13.8 million, or 15.8%, to HK\$73.4 million in 2016 compared with HK\$87.2 million in 2015. Administrative expenses mainly comprised staff costs and retirement benefits of HK\$25.1 million, legal and professional fees of HK\$8.8 million, depreciation charges of HK\$8.8 million and office and utilities expenses of HK\$6.5 million.

## **Other expenses and other losses**

Other expenses and other losses decreased by HK\$2.1 million, from HK\$8.6 million in 2015 to HK\$6.5 million in 2016. The decrease was mainly due to accrual of HK\$2.2 million in 2015 for Taiwan dividend withholding tax under-paid from 2011 to 2014.

## **Profit before tax**

Taking into account the lower gross profit, and saving distribution and administrative expenses, profit before tax increased by 15.2% from HK\$170.4 million in 2015 to HK\$196.2 million in 2016, and the pre-tax profit margin increased to 41.3% in 2016 from 33.6% in 2015.

## **Taxation**

Taxation expenses increased by HK\$14.2 million to HK\$47.8 million in 2016 compared with HK\$33.6 million in 2015. The effective tax rate of the Group in 2015 and 2016 was 19.7% and 24.4% respectively. The lower effective tax rate in 2015 was mainly due to the HK\$14.4 million tax refund of changing tax rate received for dividend income in 2009, 2010 and 2012 and royalty fee which were paid in 2011 and 2012 due to lower withholding tax rate approved by PRC tax bureau in 2014 and received in 2015.

## **Profit for the year**

Profit for the year increased by 8.5% from HK\$136.8 million in 2015 to HK\$148.4 million in 2016.

## **Liquidity and financial resources**

Cash generated from operating activities in 2016 was approximately HK\$128.0 million (HK\$140.1 million in 2015). However due to a special dividend paid in 2016, as at 31 December 2016, the Group had bank balances and cash of approximately HK\$428.6 million (HK\$502.7 million as at 31 December 2015) with no external bank borrowing.

In terms of gearing, as at 31 December 2015 and 31 December 2016, the Group's gearing ratios were zero (defined as net debt divided by shareholders' equity) as the Group was in a net cash position on both year-end dates. Current ratios of the Group (defined as current assets divided by current liabilities) as at 31 December 2015 and 31 December 2016 were 4.2 times and 3.5 times respectively. As at 31 December 2016, the Group had no material contingent liabilities, other than those disclosed in its financial statements and the notes thereto. With the cash and bank balances in hand, the Group's liquidity position remains strong and it has sufficient financial resources to finance its commitments and to meet its working capital requirements.

## **Treasury policies and exposure to fluctuations in exchange rates**

Most of the Group's revenues are denominated in Renminbi ("RMB") and New Taiwan Dollars ("NTD") as its operations are mainly located in the PRC and Taiwan. As at 31 December 2016, approximately 78.4% (80.9% as at 31 December 2015) of the Group's bank balances and cash was denominated in RMB, while approximately 17.0% (16.6% as at 31 December 2015) in NTD. The remaining 4.6% (2.5% as at 31 December 2015) was denominated in US Dollars, Hong Kong Dollars and Malaysian Ringgit. The Group continues to adopt a conservative approach in its foreign exchange exposure management. The Group reviews its foreign exchange risks periodically and uses derivative financial instruments to hedge against such risks when necessary.

## BUSINESS REVIEW

### Distribution channels

| Store Number by Ownership | Franchisee owned Spa | Self owned Spa | Total Spa    | Entrusted Counter | Self owned Counter | Total Counter | Total        |
|---------------------------|----------------------|----------------|--------------|-------------------|--------------------|---------------|--------------|
| As at 31 December 2016    |                      |                |              |                   |                    |               |              |
| PRC                       | 786                  | 1              | 787          | 0                 | 13                 | 13            | 800          |
| Taiwan                    | 249                  | 3              | 252          | 0                 | 0                  | 0             | 252          |
| Others                    | 30                   | 0              | 30           | 0                 | 0                  | 0             | 30           |
| <b>Total</b>              | <b>1,065</b>         | <b>4</b>       | <b>1,069</b> | <b>0</b>          | <b>13</b>          | <b>13</b>     | <b>1,082</b> |

| Store Number by Ownership | Franchisee owned Spa | Self owned Spa | Total Spa    | Entrusted Counter | Self owned Counter | Total Counter | Total        |
|---------------------------|----------------------|----------------|--------------|-------------------|--------------------|---------------|--------------|
| As at 31 December 2015    |                      |                |              |                   |                    |               |              |
| PRC                       | 778                  | 1              | 779          | 0                 | 14                 | 14            | 793          |
| Taiwan                    | 246                  | 3              | 249          | 0                 | 0                  | 0             | 249          |
| Others                    | 30                   | 0              | 30           | 0                 | 0                  | 0             | 30           |
| <b>Total</b>              | <b>1,054</b>         | <b>4</b>       | <b>1,058</b> | <b>0</b>          | <b>14</b>          | <b>14</b>     | <b>1,072</b> |

| Average sales per store | 2016 Average store* | 2015 Average store* | 2016 Average sales per store HK\$ | 2015 Average sales per store HK\$ | Changes HK\$  | %           |
|-------------------------|---------------------|---------------------|-----------------------------------|-----------------------------------|---------------|-------------|
| PRC                     | 796.5               | 940.5               | 485,000                           | 445,000                           | 40,000        | 9.0%        |
| Taiwan                  | 250.5               | 254.5               | 342,000                           | 334,000                           | 8,000         | 2.4%        |
| <b>Group total**</b>    | <b>1,047.0</b>      | <b>1,195.0</b>      | <b>451,000</b>                    | <b>421,000</b>                    | <b>30,000</b> | <b>7.1%</b> |

\* 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.

The Group derives its income principally from its network of distribution channels, including spas and concessionary counters in department stores. As at 31 December 2016, there were 1,069 spas and 13 concessionary counters. Of these, 1,065 were franchised spas, and 4 spas and 13 concessionary counters were directly operated by the Group. No concessionary counters were entrusted to third-party operators. Franchised spas are owned by the franchisees who are responsible for the capital investment in these spas. They are obliged to use only Natural Beauty or “NB” products in their spas. A wide array of services including hydrotherapy, facial treatment, body care and skin care analysis, are provided in all spas, while skin care analysis is widely available at the concessionary counters in department stores.

Group-wide, a total of 63 new stores were opened and 53 stores were closed during the year ended 31 December 2016. Average sales per store increased from HK\$421,000 in 2015 to HK\$451,000 in 2016.

## **Research and Development**

The Group puts significant emphasis on research and development which allows it to maintain its competitive edge, to continuously improve the quality of its existing products and develop new products. The Group has been collaborating with overseas skin-care companies on technological development. The bio-technology materials the Group uses for its NB products are imported from Europe, Japan and Australia. The Group’s research and development team comprises a number of overseas consultants with experience and expertise in cosmetics, medicine, pharmacy and bio-chemistry. NB’s products are constantly enhanced and modified by the application of new ingredients developed by the team. The Group draws on its collaboration of experts with different expertise and experiences, together with Dr. TSAI Yen-Yu’s 40-year-plus industry experience and knowledge to continue to create high-quality beauty and skin care products. NB principally uses natural ingredients to manufacture products and adopts special formulae to cater to the specific needs of women with delicate skin. NB products accommodate 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 for the development of an anti-aging NB-1 product family and other products for spot removal, whitening, allergy-resistance and slimming. The stem cell technology is patented in the United States to protect the uniqueness of the NB-1 products.

## **Products**

In 2016, the Group’s flagship NB-1 products accounted for more than 50% of total product sales. Sales of NB-1 branded products reached HK\$238 million in 2016. With effective product line rationalization plan, NB-1 series was successfully launched several new products, among them, spa care product strengthened and consolidated the status of Natural Beauty in beauty and spa, meanwhile, increased product consumption and brand loyalty. The new products received good response from franchisees and achieved strong sales, especially NB-1 Plus Brightening and Repair Essence. Once listed, the market responded enthusiastically, causing consumers competing’s pursuit race, sales of which achieved HK\$36 million.

## **Human Resources**

As at 31 December 2016, the Group had a total of 558 employees, of whom 447 were based in the PRC, 109 in Taiwan and 2 in other countries and regions. Total remuneration (excluding directors' emoluments) in 2016 was approximately HK\$104.6 million (HK\$122.3 million in 2015), including retirement benefit related costs of HK\$15.1 million (HK\$16.2 million in 2015), with no stock option expenses (HK\$9.3 million in 2015). Competitive remuneration packages are maintained to attract, retain and motivate capable staff members and are reviewed on a regular basis.

The Group maintains good relations with its employees and is committed to their training and development. Professional training courses are offered to beauticians employed by the Group and to franchisees on a regular basis.

## **Capital Expenditures**

The Group's capital expenditure of HK\$19.0 million in 2016 was mainly related to the production equipment amounting to HK\$7.5 million, IT infrastructure amounting to HK\$1.5 million and office and Spa renovation amounting to HK\$7.4 million.

## **FUTURE OUTLOOK**

The PRC government's continued plan for urbanization and incentive for individual entrepreneurship should fuel the continuous growth in the beauty and personal care market.

With the escalating rental and labor costs in China, we will continue to pursue a prudent growth strategy and implement the following strategies so as to proactively strengthen our position as a leading skin care brand and spa operator in the Greater China Region.

- We will encourage people to start their own business at NB and focus on launching more stores in tier 2 and tier 3 cities in the PRC.
- We will adapt to the trend of health care industry and make more marketing promotional efforts to drive the growth of health supplement.
- We will speed up the upgrading of current products to satisfy the needs of consumers. We will rebuild the image of professional skin care product and strengthen the education, training and communication of concept of cosmetology.
- We will integrate online and offline marketing resources with the aim to establish business model of "Online To Offline".
- We will continuously seek and explore new marketing channels and opportunities for skin care products, such as preventive medical cosmetology and e-business.
- We will set up more training centres in various regions to offer free training and career guidance.

## **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, the executive committee, the remuneration committee and the nomination committee with defined terms of reference which are of no less exacting terms than those set out in the Corporate Governance Code and Corporate Governance Report (the “**Code on Corporate Governance**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). These committees (saved for executive committee) are chaired by non-executive Directors.

### **Audit Committee and Review of Annual Financial Statements**

The audit committee has adopted terms of reference (Audit Committee Charter) which are in line with the code provisions of the Code on Corporate Governance. The audited consolidated financial statements of the Company for the year ended 31 December 2016 have been reviewed by the audit committee which 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. The audit committee is authorised by the Board to investigate any activity within its terms of reference and to obtain outside legal or other independent professional advice. The audit committee is also responsible to perform corporate governance functions set out in code provision D.3.1 of the Code on Corporate Governance.

### **Remuneration Committee**

The remuneration committee has adopted terms of reference (Remuneration Committee Charter) which are in line with the code provisions of the Code on Corporate Governance. The main duties of the remuneration committee include determining the policy and structure for the remuneration of executive Directors, assessing performance of executive Directors and approving the terms of executive Directors’ service contracts, and determining or making recommendations to the Board on the Company’s remuneration packages of individual executive and non-executive Directors and senior management.

### **Nomination Committee**

The nomination committee has adopted terms of reference (Nomination Committee Charter) which are in line with the code provisions of the Code on Corporate Governance. The nomination committee is responsible for, including but not limited to, determining the policy for the nomination of Directors, reviewing the structure, size, composition and diversity of the Board annually and making recommendations to the Board on selection of candidates for directorships pursuant to the Board Diversity Policy. It also assesses the independence of independent non-executive Directors.

## **Executive Committee**

The executive committee is primarily responsible for formulating business policies, making decisions on key business issues and policies, facilitating the approval of certain corporate actions and exercising the powers and authority delegated by the Board in respect of matters arising between regularly scheduled Board meetings, and to review financial, marketing, retail, operation and other business performance, as well as to review and approve annual budget and key performance indicators (KPIs) and track performance.

## **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 fully complied with all the code provisions set out in the Code on Corporate Governance throughout the year ended 31 December 2016, except for the following deviations:

### **Code provision A.2.7**

Code provision A.2.7 stipulates that the chairman should at least annually hold meetings with non-executive directors (including independent non-executive directors) without the executive directors present. Since the Chairperson is also an executive Director of the Company, respective independent non-executive Directors are members of audit committee, remuneration committee and nomination committee and, the existing non-executive Director is also member of the executive committee, it was considered there were ample opportunities for the Chairperson to communicate with the non-executive Directors (including independent non-executive Directors), therefore no separate meetings were held between the Chairperson and the non-executive Directors.

### **Code provision A.6.7**

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the Company's shareholders. All independent non-executive Directors and non-executive Director of the Company were unable to attend the Company's annual general meeting held on 25 May 2016 ("**2016 AGM**") due to other overseas commitments.

### **Code provision E.1.2**

Code provision E.1.2 stipulates that the chairman of the board of a listed issuer should attend the annual general meeting. The chairman of the board should also invite the chairmen of the audit, remuneration, nomination and any other committees to attend. In their absence, the chairman of the board should invite another member of the committee or failing this, his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.



Dr. TSAI Yen-Yu, the Chairperson of the Board, and the Chairmen of the audit committee, remuneration committee, executive committee and nomination committee, were unable to attend the 2016 AGM due to other overseas commitments. The Board had arranged for Dr. SU Chien-Cheng, an executive Director of the Company and a member of the remuneration committee and executive committee of the Group, who is well versed in all business activities and operations of the Group, to attend and chair the 2016 AGM on behalf of Dr. TSAI Yen-Yu and to respond to shareholders' questions.

The Company has optimized the planning and procedures of annual general meetings by, for example, giving adequate time to all Directors to accommodate their work arrangements and providing all necessary support for their presence and participation at annual general meetings, such that the Chairperson of the Board and all Directors will be able to attend future annual general meetings of the Company.

### **Compliance with the Model Code**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry with all Directors, all Directors have confirmed that the required standards of the Model Code have been complied with throughout the year ended 31 December 2016 and up to the date of this announcement.

The Company has adopted written guidelines (the "**Company's Guidelines**"), which are equally stringent as the Model Code, in respect of securities transactions by relevant employees of the Company who are likely to be in possession of unpublished inside information of the Company pursuant to code provision A.6.4. No incident of non-compliance with the Model Code or the Company's Guidelines by the Company's relevant employees has been noted after making reasonable enquiry.

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **FINAL DIVIDEND AND SPECIAL FINAL DIVIDEND**

The Board of the Company has proposed the payment of a final dividend of HK\$0.0327 per share for the year ended 31 December 2016 ("**Final Dividend**") (2015: final dividend of HK\$0.0292 per share) and a special final dividend of HK\$0.025 per share (2015: nil). The proposed Final Dividend and special final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on 26 July 2017 to the shareholders whose names appear on the register of members of the Company on 6 June 2017.



## **2017 ANNUAL GENERAL MEETING (“2017 AGM”)**

The 2017 AGM of the Company will be held on Thursday, 25 May 2017. The Company will despatch a circular containing, among other matters, further information relating to the 2017 AGM to shareholders of the Company as soon as practicable.

### **CLOSURES OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed for the following periods:

- (a) For the purpose of determining the identity of shareholders who are entitled to attend and vote at the 2017 AGM, the Register of Members of the Company will be closed from Friday, 19 May 2017 to Thursday, 25 May 2017, both days inclusive. In order to be eligible for attending and voting at the 2017 AGM, all transfer documents should be lodged for registration 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, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 18 May 2017; and
- (b) For the purpose of determining the identity of shareholders who qualify for the Final Dividend and special final dividend, the Register of Members of the Company will be closed from Monday, 5 June 2017 to Tuesday, 6 June 2017, both days inclusive. In order to qualify for the Final Dividend and special final dividend, all transfer documents should be lodged for registration 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, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 2 June 2017.

### **PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE’S AND THE COMPANY’S WEBSITE**

This annual results announcement is also published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and that of the Company ([www.corpasia.net/hongkong/0157/irwebsite](http://www.corpasia.net/hongkong/0157/irwebsite)). The Annual Report for the year ended 31 December 2016 of the Company containing all the information required by 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 profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 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  
**Natural Beauty Bio-Technology Limited**  
**Tsai Yen-Yu**  
*Chairperson*

Hong Kong, 28 March 2017

*As at the date of this announcement, the Board comprises Dr. Tsai Yen-Yu, Mr. Lee Ming-Ta and Dr. Su Chien-Cheng as executive directors, Dr. Su Sh-Hsyu as non-executive director and Mr. Chen Ruey-Long, Mr. Lu Chi-Chant and Mr. Hsieh Pang-Chang as independent non-executive directors.*