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自然美  
natural beauty

Natural Beauty Bio-Technology Limited

自然美生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00157)

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017**

### **HIGHLIGHTS:**

- Turnover decreased by 15.9% to HK\$399.6 million.
- Profit before tax decreased by 25.2% to HK\$146.7 million.
- Net profit decreased by 29.0% to HK\$105.4 million.
- Final dividend for the year ended 31 December 2017 of HK\$0.0335 per share (2016: a final dividend of HK\$0.0327 per share and a special final dividend of HK\$0.025 per share).

### **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 2017, together with the comparative figures for 2016, as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(With comparatives for the year ended 31 December 2016)

	<i>Notes</i>	<b>2017</b> <b>HK\$'000</b>	2016 <i>HK\$'000</i>
Revenue	3	<b>399,579</b>	475,225
Cost of sales		<b>(94,467)</b>	(122,366)
Gross profit		<b>305,112</b>	352,859
Other income and other gains	5	<b>12,879</b>	36,426
Distribution and selling expenses		<b>(100,946)</b>	(113,142)
Administrative expenses		<b>(61,457)</b>	(73,420)
Other expenses and other losses		<b>(8,850)</b>	(6,506)
Profit before tax		<b>146,738</b>	196,217
Income tax expense	6	<b>(41,350)</b>	(47,814)
Profit for the year	7	<b>105,388</b>	148,403
<b>Other comprehensive income (expense):</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit pension plans		<b>(1,126)</b>	715
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation		<b>52,379</b>	(36,473)
Other comprehensive income (expense) for the year		<b>51,253</b>	(35,758)
Total comprehensive income for the year		<b>156,641</b>	112,645
Profit for the year attributable to:			
Owners of the Company		<b>105,388</b>	148,403
Total comprehensive income for the year attributable to:			
Owners of the Company		<b>156,641</b>	112,645
Earnings per share	9		
Basic and diluted		<b>HK5.3 cents</b>	HK7.4 cents

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT 31 DECEMBER 2017

(With comparatives at 31 December 2016)

	<i>Notes</i>	<b>2017</b> <b>HK\$'000</b>	2016 HK\$'000
<b>Non-current assets</b>			
Investment properties		<b>7,893</b>	7,196
Property, plant and equipment		<b>198,610</b>	173,542
Prepaid lease payments		<b>52,431</b>	48,296
Goodwill		<b>27,095</b>	25,510
Pledged bank deposits		<b>–</b>	1,706
		<b>286,029</b>	256,250
<b>Current assets</b>			
Inventories		<b>85,077</b>	49,842
Trade and other receivables	<i>10</i>	<b>109,289</b>	84,628
Prepaid lease payments		<b>1,249</b>	1,127
Pledged bank deposits		<b>7,338</b>	1,706
Bank balances and cash		<b>288,903</b>	428,633
		<b>491,856</b>	565,936
<b>Current liabilities</b>			
Trade and other payables	<i>11</i>	<b>91,282</b>	132,198
Deferred income		<b>5,981</b>	6,223
Tax payable		<b>18,389</b>	24,305
		<b>115,652</b>	162,726
<b>Net current assets</b>		<b>376,204</b>	403,210
<b>Total assets less current liabilities</b>		<b>662,233</b>	659,460
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>5,863</b>	686
Retirement benefit obligations		<b>5,624</b>	4,101
		<b>650,746</b>	654,673
<b>Capital and reserves</b>			
Share capital		<b>200,210</b>	200,210
Reserves		<b>450,536</b>	454,463
<b>Total equity</b>		<b>650,746</b>	654,673

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 Holding 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 this annual report.

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 also the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED 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 HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12	<i>As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle</i>

The application of the above 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.

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

	<b>2017</b> <b>HK\$’000</b>	2016 HK\$’000
Sales of goods	<b>393,872</b>	469,894
Service income	<b>5,707</b>	5,331
	<b>399,579</b>	475,225

#### 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 2017

	<b>PRC</b> <i>HK\$’000</i>	<b>Taiwan</b> <i>HK\$’000</i>	<b>Others</b> <i>HK\$’000</i>	<b>Total</b> <i>HK\$’000</i>
Revenue	<u>319,228</u>	<u>77,232</u>	<u>3,119</u>	<u>399,579</u>
Segment profit (loss)	<u>135,255</u>	<u>18,550</u>	<u>(688)</u>	<u>153,117</u>
Unallocated corporate expenses				<b>(10,704)</b>
Unallocated income				<u>4,325</u>
Profit before tax				<u><b>146,738</b></u>

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

	<b>PRC</b> <i>HK\$’000</i>	<b>Taiwan</b> <i>HK\$’000</i>	<b>Others</b> <i>HK\$’000</i>	<b>Total</b> <i>HK\$’000</i>
Revenue	<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				<b>(10,295)</b>
Unallocated income				<u>6,187</u>
Profit before tax				<u><b>196,217</b></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 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.

### Other segment information

	PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Segment and consolidated total <i>HK\$'000</i>
<b>2017</b>				
Amounts included in the measure of segment profit (loss):				
Depreciation of property, plant and equipment	16,183	4,388	16	20,587
Release of prepaid lease payments	1,180	–	–	1,180
Loss on disposal of property, plant and equipment	191	–	–	191
Allowance (reversal of allowance) for obsolete inventories	1,751	46	(60)	1,737
Allowance on trade receivables	3,457	–	–	3,457
	<u>16,183</u>	<u>4,388</u>	<u>16</u>	<u>20,587</u>
	PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Others <i>HK\$'000</i>	Segment and consolidated total <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>18,148</u>	<u>4,270</u>	<u>22</u>	<u>22,440</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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The PRC	234,300	206,764
Taiwan	51,701	47,740
Others	28	40
	<u>286,029</u>	<u>254,544</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 2017 and 2016.

## 5. OTHER INCOME AND OTHER GAINS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on bank deposits	4,325	6,187
Rental income from investment properties	206	179
Rental income from other properties and equipment	1,869	2,115
Financial refunds ( <i>Note i</i> )	4,187	6,498
Income resulting from expired franchisees deposit	1,594	–
Increase in fair value of investment properties	–	532
Compensation income arising from termination of a tenancy agreement ( <i>Note ii</i> )	–	19,094
Others	698	1,821
	<u>12,879</u>	<u>36,426</u>

*Note i:* Pursuant to the local practice of the finance bureau of the provinces in which certain PRC subsidiaries operate, the PRC subsidiaries will receive financial refunds from other taxes paid in the form of government grants through 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 subsidiaries of the Group.

*Note ii:* 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 year ended 31 December 2016, through negotiation, both Jiangqiao and the Group agreed to terminate the agreement in advance. Meanwhile Jiangqiao agreed to pay a compensation of approximately RMB15,983,000 (equivalent to approximately HK\$19,094,000) to the Group.

## 6. INCOME TAX EXPENSE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The charge comprises:		
Taxation in the PRC		
Current year	23,171	36,542
Over provision in prior years	(1,383)	(2,982)
Withholding tax on dividends	<u>6,178</u>	<u>5,636</u>
	<u>27,966</u>	<u>39,196</u>
Taxation in Taiwan		
Current year	3,312	3,321
Under (over) provision in prior years	13	(9)
Withholding tax on dividends	<u>5,305</u>	<u>3,621</u>
	<u>8,630</u>	<u>6,933</u>
Taxation in Hong Kong and other jurisdictions		
Current year	340	1,426
Over provision in prior years	<u>(172)</u>	<u>(899)</u>
	<u>168</u>	<u>527</u>
Deferred taxation		
Current year	<u>4,586</u>	<u>1,158</u>
	<u><b>41,350</b></u>	<u><b>47,814</b></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%. The Company has obtained tax benefit approval from the tax bureau in 2014, which stipulates that the withholding tax rate for Natural Beauty China Holding Limited could be reduced to 5% for the dividend income from July 2011 to December 2017 and 7% for royalty fee from January 2012 to December 2018.

Pursuant to the relevant laws and regulations in the PRC and Taiwan, dividend withholding tax is imposed at a rate of 5% and 20% on dividends that are declared in respect of profits earned by PRC and Taiwan subsidiaries respectively and that are received by non-local resident entities. Withholding tax on dividends of approximately HK\$6,178,000 (2016: HK\$5,636,000) and HK\$5,305,000 (2016: HK\$3,612,000) for PRC and Taiwan were recognised respectively.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	5,520	5,323
Other staff salaries and allowances	79,690	89,505
Retirement benefits scheme contributions, excluding directors:		
– defined contribution plans	16,197	14,710
– defined benefit plan	116	261
	<u>101,523</u>	<u>109,799</u>
Total staff costs		
Depreciation of property, plant and equipment	20,587	22,440
Cost of inventories recognised as an expense	79,819	108,891
Release of prepaid lease payments	1,180	1,180
Auditor's remuneration	3,367	2,999
Loss on disposal of property, plant and equipment	191	1,776
Compensation income arising from termination of a tenancy agreement	–	(19,094)
Research and development costs	2,806	2,464
Allowance (reversal of allowance) for trade receivables	3,457	(414)
Allowance for obsolete inventories, included in cost of sales	1,737	327
Advertising and promotion expenses	13,510	28,781
Net exchange loss	3,713	3,110
	<u><u>3,713</u></u>	<u><u>3,110</u></u>

## 8. DIVIDENDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Interim dividend, paid – HK\$0.0171 per share for 2017 (2016: HK\$0.0410 per share for 2016)	34,236	82,086
Special interim dividend, paid – HK\$0.0054 per share for 2017 (2016: HK\$0.0250 per share for 2016)	10,811	50,053
Final dividend, paid – HK\$0.0327 per share for 2016 (2016: HK\$0.0292 per share for 2015)	65,469	58,461
Special final dividend, paid – HK\$0.025 per share for 2016 (2016: nil)	50,052	–
	<u>160,568</u>	<u>190,600</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of HK\$0.0335 per share (2016: a final dividend of HK\$0.0327 per share and a special final dividend of HK\$0.025 per share in respect of the year ended 31 December 2016), amounting to HK\$67,070,381 (2016: HK\$65,468,700 and HK\$50,052,523, respectively) in aggregate, has been proposed by the directors and is 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\$105,388,000 (2016: HK\$148,403,000) and on the number of 2,002,100,932 (2016: 2,002,100,932) ordinary shares of the Company in issue during the year.

The computation of diluted earnings per share for 2017 and 2016 does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market prices in both years.

## 10. TRADE AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	103,240	74,448
Less: allowance for doubtful debts	<u>(5,089)</u>	<u>(1,476)</u>
	98,151	72,972
Prepayments	7,522	6,063
Other receivables	<u>3,616</u>	<u>5,593</u>
Total trade and other receivables	<u><u>109,289</u></u>	<u><u>84,628</u></u>

The Group allows an average credit period of 30 to 120 days (2016: 30 to 60 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 as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Aging:		
Within credit period	78,503	57,218
Over credit period but less than 180 days	6,783	15,754
Over 180 days	<u>12,865</u>	<u>–</u>
	<u><u>98,151</u></u>	<u><u>72,972</u></u>

Included in the Group's receivable balances are debtors with aggregate carrying amount of HK\$20,850,000 (2016: HK\$15,754,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group hold a collateral for a balance of HK\$ 6,967,000 (2016: nil).

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Aging:		
Over credit period but less than 180 days	6,783	15,754
Over 180 days	<u>12,865</u>	<u>–</u>
	<u><u>19,648</u></u>	<u><u>15,754</u></u>

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.

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>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Balance at the beginning of the year	<b>1,476</b>	6,753
Amounts recovered during the year	<b>(589)</b>	(1,364)
Allowance on receivables	<b>4,046</b>	950
Amounts written off as uncollectible	<b>(115)</b>	(4,565)
Exchange realignment	<b>271</b>	(298)
	<hr/>	<hr/>
Balance at the end of the year	<b>5,089</b>	1,476
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Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK\$5,089,000 (2016: HK\$1,476,000), which have been identified with financial difficulties.

#### 11. TRADE AND OTHER PAYABLES

	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade payables	<b>21,521</b>	20,880
Deposits from customers	<b>25,934</b>	26,901
Other tax payables	<b>14,981</b>	25,654
Accruals	<b>21,483</b>	48,914
Other payables	<b>7,363</b>	9,849
	<hr/>	<hr/>
Total trade and other payables	<b>91,282</b>	132,198
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The following is an aging analysis of trade payables presented based on the invoice date at the end of the reporting period.

	<b>2017</b> <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 90 days	<b>21,123</b>	20,221
91 days to 365 days	<b>18</b>	215
Over 365 days	<b>380</b>	444
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	<b>21,521</b>	20,880
	<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 2017 decreased by 15.9% to HK\$399.6 million compared with HK\$475.2 million in 2016. The decline was mainly due to a decrease of HK\$76.0 million in product sales, such segment contributed to 98.6% of the Group's total turnover.

Turnover in the PRC market decreased by 17.4% from HK\$386.4 million in 2016 to HK\$319.2 million in 2017, while turnover in the Taiwan market decreased by 9.8% to HK\$77.2 million in 2017 compared with HK\$85.7 million in 2016.

Sales from other regions, including Hong Kong, Malaysia and Macau, decreased by 1.3% from HK\$3.2 million in 2016 to HK\$3.1 million in 2017. Contribution from these regions remained at an insignificant level of just 0.8% of the Group's turnover.

The Group's overall gross profit margin increased from 74.3% in 2016 to 76.4% in 2017 mainly due to the launch of a new high-profit-margin product in the fourth quarter of 2017.

Turnover by activities	2017		2016		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Products	<b>393,872</b>	<b>98.6%</b>	469,894	98.9%	(76,022)	(16.2%)
Services	<b>5,707</b>	<b>1.4%</b>	5,331	1.1%	376	7.1%
<b>Total</b>	<b><u>399,579</u></b>	<b><u>100.0%</u></b>	<b><u>475,225</u></b>	<b><u>100.0%</u></b>	<b><u>(75,646)</u></b>	<b><u>(15.9%)</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 2017 amounted to HK\$393.9 million, or 98.6% of the Group's total revenue, representing a decrease of HK\$76.0 million or by 16.2% when compared with product sales of HK\$469.9 million in 2016. The decrease in product sales was mainly driven by the decrease in such segment in the PRC market by 17.7% to HK\$316.1 million in 2017 compared with HK\$383.9 million in 2016.

#### 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 two self-owned spas in China and three 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 2017, service income increased by 7.1% to HK\$5.7 million compared with HK\$5.3 million in 2016.

Service income	2017		2016		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Training income	471	8.2%	401	7.5%	70	17.5%
Spa service income	4,192	73.5%	4,756	89.2%	(564)	(11.9%)
Others	1,044	18.3%	174	3.3%	870	500.0%
<b>Total</b>	<b>5,707</b>	<b>100.0%</b>	<b>5,331</b>	<b>100.0%</b>	<b>376</b>	<b>7.1%</b>

Turnover by geographical region	2017		2016		Changes	
	HK\$'000		HK\$'000		HK\$'000	%
<b>PRC</b>						
Products			316,085	383,876	(67,791)	(17.7%)
Services			3,143	2,533	610	24.1%
<b>PRC Total</b>			<b>319,228</b>	<b>386,409</b>	<b>(67,181)</b>	<b>(17.4%)</b>
<b>Taiwan</b>						
Products			74,668	82,857	(8,189)	(9.9%)
Services			2,564	2,798	(234)	(8.4%)
<b>Taiwan Total</b>			<b>77,232</b>	<b>85,655</b>	<b>(8,423)</b>	<b>(9.8%)</b>
<b>Others</b>						
Products			3,120	3,161	(41)	(1.3%)
Services			–	–	–	–
<b>Others Total</b>			<b>3,120</b>	<b>3,161</b>	<b>(41)</b>	<b>(1.3%)</b>

### The PRC Market

The Group's turnover in the PRC market decreased by 17.4% in 2017 to HK\$319.2 million compared with HK\$386.4 million in 2016. The decrease was mainly due to the decline in the sales of products. Gross margin on product sales increased from 76.0% in 2016 to 80.0% in 2017, as a result of the launch of a new high-profit-margin product in the fourth quarter of 2017.

### The Taiwan Market

The Group's turnover in the Taiwan market decreased by 9.8% from HK\$85.7 million in 2016 to HK\$77.2 million in 2017, mainly due to the decline in the sales of products. Gross profit margin on product sales decreased from 79.3% in 2016 to 77.6% in 2017, as a result of the decline in the sales of high-value and high-profit-margin products during the period under review.

## **Other income and other gains**

Other income and other gains decreased by 64.6% from HK\$36.4 million in 2016 to HK\$12.9 million in 2017, mainly due to a one-off compensation fee of HK\$19.1 million received by a PRC subsidiary in 2016. Other income and other gains mainly comprised interest income, rental income from investment and other properties, and financial refunds of HK\$4.3 million, HK\$2.1 million and HK\$4.2 million respectively.

## **Distribution and administrative expenses**

Distribution and selling expenses as a percentage of the Group's turnover increased to 25.3% in 2017 compared with 23.8% in 2016. However, the distribution and selling expenses decreased by HK\$12.2 million from HK\$113.1 million in 2016 to HK\$100.9 million in 2017. Advertising and promotion expenses decreased to 3.4% of the Group's total turnover in 2017 compared with 6.1% in 2016, and decreased by HK\$15.3 million from HK\$28.8 million in 2016 to HK\$13.5 million in 2017. Other key expenses include salaries of HK\$41.6 million, travel and entertainment expenses of HK\$5.4 million, depreciation charges of HK\$4.4 million as well as rentals of offices and sales counters of HK\$16.7 million in 2017.

Total administrative expenses decreased by HK\$11.9 million, or 16.3%, to HK\$61.5 million in 2017 compared with HK\$73.4 million in 2016. Administrative expenses mainly comprised staff costs and retirement benefits of HK\$18.0 million, legal and professional fees of HK\$8.5 million, depreciation charges of HK\$7.9 million and office and utilities expenses of HK\$5.4 million.

## **Other expenses and other losses**

Other expenses and other losses increased by HK\$2.4 million, from HK\$6.5 million in 2016 to HK\$8.9 million in 2017. Other expenses and other losses mainly comprised exchange loss of HK\$3.7 million, provision for doubtful debts of HK\$3.5 million, and related expenses of rental properties of HK\$1.5 million.

## **Profit before tax**

Taking into account the decrease in gross profit and other income and other gains, profit before tax decreased by 25.2% from HK\$196.2 million in 2016 to HK\$146.7 million in 2017, and the pre-tax profit margin decreased to 36.7% in 2017 from 41.3% in 2016.

## **Taxation**

Taxation expenses decreased by HK\$6.4 million to HK\$41.4 million in 2017 compared with HK\$47.8 million in 2016. The effective tax rates of the Group in 2016 and 2017 were 24.4% and 28.2% respectively. The lower effective tax rate in 2016 was mainly due to the fact that the one-off compensation fee received by a PRC subsidiary of HK\$19.1 million in 2016 was exempted from tax.

## **Profit for the year**

Profit for the year decreased by 29.0% from HK\$148.4 million in 2016 to HK\$105.4 million in 2017.

## Liquidity and financial resources

Cash generated from operating activities in 2017 was HK\$21.2 million (HK\$128.0 million in 2016). As at 31 December 2017, the Group had bank balances and cash of HK\$288.9 million (HK\$428.6 million as at 31 December 2016) with no external bank borrowing.

In terms of gearing, as at 31 December 2016 and 31 December 2017, 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 2016 and 31 December 2017 were 3.5 times and 4.3 times respectively. As at 31 December 2017, 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 2017, 79.0% (78.4% as at 31 December 2016) of the Group's bank balances and cash was denominated in RMB, while 16.9% (17.0% as at 31 December 2016) was denominated in NTD. The remaining 4.1% (4.6% as at 31 December 2016) 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 2017							
PRC	796	2	798	0	14	14	812
Taiwan	246	3	249	0	0	0	249
Others	30	0	30	0	0	0	30
Total	<u>1,072</u>	<u>5</u>	<u>1,077</u>	<u>0</u>	<u>14</u>	<u>14</u>	<u>1,091</u>

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
Total	<u>1,065</u>	<u>4</u>	<u>1,069</u>	<u>0</u>	<u>13</u>	<u>13</u>	<u>1,082</u>

Average sales per store	<b>2017</b> Average store number*	2016 Average store number*	<b>2017</b> Average sales per store HK\$	2016 Average sales per store HK\$	Changes HK\$	%
PRC	<b>806.0</b>	796.5	<b>396,000</b>	485,000	(89,000)	(18.4%)
Taiwan	<b>250.5</b>	250.5	<b>308,000</b>	342,000	(34,000)	(9.9%)
Group total**	<b><u>1,056.5</u></b>	<u>1,047.0</u>	<b><u>375,000</u></b>	<u>451,000</u>	<u>(76,000)</u>	<u>(16.9%)</u>

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

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

The Group derives its income principally from its network of distribution channels, including spas and concessionary counters in department stores. As at 31 December 2017, there were 1,077 spas and 14 concessionary counters. Among these, 1,072 were franchised spas, and 5 spas and 14 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 82 new stores were opened and 73 stores were closed during 2017. Average sales per store decreased from HK\$451,000 in 2016 to HK\$375,000 in 2017.



## **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 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 experience, together with Dr. TSAI Yen-Yu's over 40 years of industry experience and knowledge to continue to develop 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.

Natural Beauty 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 2017, the Group's flagship NB-1 products accounted for more than 40% of total product sales. Sales of the NB-1 products reached HK\$167.9 million in 2017. Through research and planning on the beauty market, the Group has successfully launched a new series of the Dr. NB-1 target products, thereby strengthening and consolidating the position of Natural Beauty in the area of beauty and spa. The new products received good response from spa franchisees and achieved strong sales. Once launched to the market, the new products received enthusiastic response from the market, and customers were rushing to purchase the new products. In the fourth quarter of 2017, sales of the Dr. NB-1 target products achieved HK\$45.6 million, accounting for 11.4% of total product sales.

## **Human Resources**

As at 31 December 2017, the Group had a total of 538 employees, of whom 439 were based in the PRC, 97 in Taiwan and 2 in other countries and regions. Total remuneration (excluding directors' emoluments) in 2017 was HK\$96.0 million (HK\$104.6 million in 2016), including retirement benefit related costs of HK\$16.3 million (HK\$15.1 million in 2016). 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 spa franchisees on a regular basis.

## Capital Expenditures

The Group's capital expenditure of HK\$32.3 million in 2017 was mainly related to the new plant construction in the PRC amounting to HK\$14.3 million, opening of new store, renovation and equipment amounting to HK\$9.8 million, office and self-owned spa centre renovation amounting to HK\$4.9 million, production equipment amounting to HK\$1.2 million and IT infrastructure amounting to HK\$1.2 million.

## OUTLOOK

We will continue to implement the following positive marketing strategies:

- continue to speed up new store opening in tier 3 and tier 4 cities in the PRC.
- develop high-technology beauty apparatuses applied with high-quality and leading-edge products and create efficient and effective technology-based beauty skills and products, in order to improve the spa franchisees' service skills.
- continue to explore and expand new marketing channels and opportunities for skin care products, such as combining the traditional cosmetology with the preventive medical cosmetology and integrating online and offline marketing resources with the aim to establish business model of "Online To Offline".
- cater to China's Great Health Industry policies and continue to promote high-end food supplements through diverse channels in order to increase the revenue.

## 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 "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. These committees (saved for the 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 CG Code. The audited consolidated financial statements of the Company for the year ended 31 December 2017 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 has performed corporate governance functions set out in code provision D.3.1 of the CG Code for the year ended 31 December 2017. 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.

## **Remuneration Committee**

The remuneration committee has adopted terms of reference (Remuneration Committee Charter) which are in line with the code provisions of the CG Code. 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 CG Code. 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 of the Company. 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 CG Code**

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 CG Code throughout the year ended 31 December 2017, 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 a member of the executive committee, it was considered that 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 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, Mr. CHEN Ruey-Long, the Chairman of the audit committee, Mr. LU Chi-Chant, the Chairman of the remuneration committee, Mr. LEE Ming-Ta, the Chairman of the executive committee and Mr. HSIEH Pang-Chang, the Chairman of the nomination committee were unable to attend the Company's annual general meeting held on 25 May 2017 ("**2017 AGM**") due to other overseas commitments. The Board had arranged for Dr. SU Chien-Cheng, an executive Director and a member of the remuneration committee and executive committee of the Company, who is well versed in all business activities and operations of the Group, to attend and chair the 2017 AGM on behalf of Dr. TSAI Yen-Yu and to respond to shareholders' questions.

The Company has optimised 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 2017 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 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **FINAL DIVIDEND**

The Board of the Company has proposed the payment of a final dividend of HK\$0.0335 per share for the year ended 31 December 2017 ("**Final Dividend**") (2016: a final dividend of HK\$0.0327 per share and a special final dividend of HK\$0.025 per share). The proposed Final Dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on Wednesday, 29 August 2018 to the shareholders whose names appear on the register of members of the Company on Wednesday, 6 June 2018.

## **2018 ANNUAL GENERAL MEETING ("2018 AGM")**

The 2018 AGM of the Company will be held on Thursday, 24 May 2018. The Company will despatch a circular containing, among other matters, further information relating to the 2018 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 2018 AGM, the Register of Members of the Company will be closed from Thursday, 17 May 2018 to Thursday, 24 May 2018, both days inclusive. In order to be eligible for attending and voting at the 2018 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 Wednesday, 16 May 2018; and
- (b) For the purpose of determining the identity of shareholders who qualify for the Final Dividend, the Register of Members of the Company will be closed from Tuesday, 5 June 2018 to Wednesday, 6 June 2018, both days inclusive. In order to qualify for the 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 Monday, 4 June 2018.

## **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.ir-cloud.com/hongkong/00157/irwebsite](http://www.ir-cloud.com/hongkong/00157/irwebsite)). The Annual Report for the year ended 31 December 2017 of the Company containing all the information required by Appendix 16 to 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 2017 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, 27 March 2018

*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.*