自然美

natural beauty

Natural Beauty Bio-Technology Limited

自然美生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00157)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

HIGHLIGHTS:

- Net Profit Surged 45.6% to HK$178.8 Million
- Generous Dividend Payout at 168% to HK$300 Million for FY07
- China Market Continued to Drive Revenue and Profit Growth
- Fonperi Contributed to Taiwan Market's Top Line Turn Around

RESULTS

The directors of Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Company") are pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007, together with the comparative figures for 2006, as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	**2007** *HK$'000*	2006 *HK$'000*
Turnover	*4*	**450,147**	363,746
Cost of sales		**(77,573)**	(68,725)
Gross profit		**372,574**	295,021
Other income	*6*	**32,461**	47,323
Distribution and selling costs		**(117,937)**	(101,383)
Administrative expenses		**(74,536)**	(59,450)
Other expenses		**(4,247)**	(6,881)
Share of loss of an associate		**(373)**	(172)
Share of profit (loss) of a jointly controlled entity		**87**	(5)
Profit before taxation	*7*	**208,029**	174,453
Income tax expense	*8*	**(29,248)**	(51,641)
Profit for the year		**178,781**	122,812
Attributable to:			
Equity holders of the Company		**178,707**	123,198
Minority interests		**74**	(386)
		178,781	122,812
Dividends	*9*	**185,000**	80,000
Earnings per share	*10*		
Basic		**HK 8.9 cents**	HK 6.2 cents

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment properties		**4,544**	162,228
Property, plant and equipment		**218,025**	173,479
Prepaid lease payments		**9,516**	9,119
Intangible assets		**–**	–
Goodwill		**24,562**	23,207
Interest in an associate		**–**	373
Interest in a jointly controlled entity		**–**	353
Available-for-sale investments		**9,126**	6,786
Deferred taxation assets		**7,550**	9,437
		273,323	384,982
Current assets			
Inventories		**71,017**	63,573
Trade and other receivables	*11*	**98,971**	164,905
Prepaid lease payments		**262**	244
Held-for-trading investments		**–**	27,713
Bank balances and cash		**588,741**	356,243
		758,991	612,678
Current liabilities			
Trade and other payables	*12*	**90,308**	70,198
Deferred income		**9,763**	9,336
Taxation payable		**4,693**	27,638
		104,764	107,172
Net current assets		**654,227**	505,506
Total assets less current liabilities		**927,550**	890,488
Non-current liability			
Retirement benefit obligations		**11,899**	11,317
		915,651	879,171
Capital and reserves			
Share capital		**200,000**	200,000
Reserves		**709,626**	678,739
Equity attributable to equity holders of the Company		**909,626**	878,739
Minority interests		**6,025**	432
Total equity		**915,651**	879,171

Notes:

1. GENERAL

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

2. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7, retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative informative based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combination[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

4. TURNOVER

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

	2007	2006
	HK$'000	*HK$'000*
Sales of goods	**430,416**	334,560
Service income	**16,914**	24,482
Entrustment fee income	**2,817**	4,704
	450,147	363,746

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Geographical segments

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

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

	PRC	**Taiwan**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
For the year ended 31 December 2007				
Turnover	**316,808**	**126,837**	**6,502**	**450,147**
Segment results	**174,024**	**44,732**	**(5,198)**	**213,558**
Unallocated expenses				**(11,997)**
Unallocated income				**6,754**
Share of loss of an associate				**(373)**
Share of loss of a jointly controlled entity				**87**
Profit before taxation				**208,029**
Income tax expense				**(29,248)**
Profit for the year				**178,781**

Consolidated balance sheet

	PRC *HK$'000*	**Taiwan** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Assets				
Segment assets	**291,155**	**131,218**	**10,666**	**433,039**
Unallocated assets				**599,275**
Consolidated total assets				**1,032,314**
Liabilities				
Segment liabilities	**58,448**	**45,728**	**1,824**	**106,000**
Unallocated liabilities				**10,663**
Consolidated total liabilities				**116,663**
Other information				
Capital expenditure	**44,821**	**4,408**	**4,549**	**53,778**
Depreciation of property, plant and equipment	**11,461**	**4,930**	**1,131**	**17,522**
Release of prepaid lease payments	**252**	**–**	**–**	**252**
(Gain) loss on disposal of property, plant and equipment	**(884)**	**(3)**	**29**	**(858)**
Gain on disposal of investment property	**–**	**(1,199)**	**–**	**(1,199)**
(Written back) allowance for obsolete inventories	**(866)**	**809**	**56**	**(1)**
Impairment loss on trade receivables	**1,401**	**784**	**–**	**2,185**
Increase in fair value of investment property	**–**	**50**	**–**	**50**

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

Consolidated balance sheet

	PRC	Taiwan	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	309,616	273,694	5,824	589,134
Interest in an associate	373	–	–	373
Interest in a jointly controlled entity	–	353	–	353
Unallocated assets				407,800
Consolidated total assets				997,660
Liabilities				
Segment liabilities	39,879	41,605	5,305	86,789
Unallocated liabilities				31,700
Consolidated total liabilities				118,489
Other information				
Capital expenditure	8,794	2,142	329	11,265
Depreciation of property, plant and equipment	13,461	6,581	773	20,815
Release of prepaid lease payments	239	–	–	239
Loss on disposal of property, plant and equipment	139	–	462	601
Amortisation of intangible assets	939	–	–	939
Allowance for obsolete inventories	1,027	–	290	1,317
Impairment loss on trade receivables	1,171	69	–	1,240
Increase in fair value of investment property	–	320	–	320

Business segments

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

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

	Turnover		**Other income**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cosmetic products and beauty services	**450,147**	363,746	**–**	–
Investment properties	**–**	–	**4,942**	6,492
Others	**–**	–	**27,519**	40,831
	450,147	363,746	**32,461**	47,323

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

	Carrying amount of segment assets		**Capital expenditure**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cosmetic products and beauty services	**428,495**	426,906	**53,778**	11,265
Investment properties	**4,544**	162,228	**–**	–
	433,039	589,134	**53,778**	11,265

6. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Rental income from investment properties	**3,693**	6,172
Rental income from other properties and equipment	**3,839**	2,713
Interest income on bank deposits	**6,754**	4,321
Financial refunds (note)	**9,659**	26,506
Increase in fair value of investment properties	**50**	320
Realised and unrealised gain on held-for-trading investments	**4,102**	2,476
Gain on disposal of an associate	**1,024**	–
Gain on disposal of property, plant and equipment	**858**	–
Gain on disposal of investment property	**1,199**	–
Others	**1,283**	4,815
	32,461	47,323

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

7. PROFIT BEFORE TAXATION

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Staff costs:		
– directors' emoluments	**1,560**	2,744
– other staff costs	**71,476**	52,347
Retirement benefits scheme contributions, excluding directors:		
– contributions to defined contribution plan	**7,062**	5,161
– expenses recognised in respect of defined benefit plan	**870**	933
Share-based payments	**101**	–
Total staff costs	**81,069**	61,185
Depreciation of property, plant and equipment	**17,522**	20,815
Amortisation of intangible assets, included in administrative expenses	**–**	939
Total depreciation and amortisation	**17,522**	21,754
Release of prepaid lease payments	**252**	239
Auditors' remuneration	**3,508**	2,862
(Gain) Loss on disposal of property, plant and equipment	**(858)**	601
Research and development costs	**1,693**	1,996
(Written back) allowance for obsolete inventories	**(1)**	1,317
Cost of inventories recognised as expense	**77,573**	68,725
Impairment loss on trade receivables	**2,185**	1,240
Exchange loss	**180**	1,427

8. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
The charge comprises:		
Taxation in PRC and Taiwan		
Current year	**26,772**	53,983
Underprovision in prior years	**233**	2,144
	27,005	56,127
Deferred taxation		
Current year	**1,625**	(4,486)
Change in tax rate	**618**	–
	2,243	(4,486)
	29,248	51,641

PRC Enterprise Income Tax are calculated at 27% or 33% of the assessable profit for the year. Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Holiday").

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 27% or 33% to 25% for subsidiaries established in the PRC from 1 January 2008. The Tax Holiday will continue on the implementation of the New Law using the preferential tax rate. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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

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

9. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
Interim dividend, paid – HK$0.030 per share (2006: HK$0.0140)	**60,000**	28,000
Interim special dividend, paid – HK$0.020 per share (2006: HK$0.0060)	**40,000**	12,000
Final dividend, paid – HK$0.030 per share (2006: HK$0.020)	**60,000**	40,000
Final special dividend, paid – HK$0.0125 per share (2006: Nil)	**25,000**	–
	185,000	80,000

The final dividend of HK$0.0420 (2006: HK$0.030) per share and a final special dividend of HK$0.0580 (2006: HK$0.0125) per share, amounting to approximately HK$84,000,000 and HK$116,000,000, respectively, have been proposed by the directors and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company is based on the profit attributable to the equity holders of the Company of HK$178,707,000 (2006: HK$123,198,000) and on the number of 2,000,000,000 (2006: 2,000,000,000) ordinary shares of the Company in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the year ended 31 December 2007.

No diluted earnings per share has been presented as the Company has no dilutive potential ordinary shares in issue during the year ended 31 December 2006.

11. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**59,351**	85,990
Prepayments and deposits	**14,064**	20,446
Financial refunds receivable	**9,834**	26,858
Other receivables	**15,722**	31,611
Total trade and other receivables	**98,971**	164,905

The Group allows a credit period ranging from one to six months to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
Within 180 days	**44,874**	73,836
181 days to 365 days	**5,096**	8,937
1 to 2 years	**7,391**	2,944
Over 2 years	**1,990**	273
	59,351	85,990

12. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**21,813**	16,607
Deposits from customers	**25,389**	20,896
Other tax payables	**12,743**	8,618
Other payables	**30,363**	24,077
Total trade and other payables	**90,308**	70,198

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

	2007	2006
	HK$'000	*HK$'000*
Within 180 days	**21,795**	15,347
181 days to 365 days	**–**	16
1 to 2 years	**2**	607
Over 2 years	**16**	637
	21,813	16,607

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

Turnover by geographical region	**2007** *HK$'000*	*%*	2006 *HK$'000*	*%*	Changes *HK$'000*	*%*
PRC	**316,808**	**70.4%**	240,011	66.0%	76,797	32.0%
Taiwan	**126,837**	**28.2%**	114,820	31.6%	12,017	10.5%
Others	**6,502**	**1.4%**	8,915	2.4%	(2,413)	-27.1%
Total	**450,147**	**100.0%**	**363,746**	**100.0%**	**86,401**	**23.8%**

Turnover by Geographical Region

Turnover increased by 23.8% to HK$450.1 million in 2007 as compared to HK$363.7 million in 2006. PRC market continued to demonstrate robust sales growth at 32.0% driven by the strong Chinese economy. Taiwan market was still weak but we managed to turn around the business in this market and recorded a 10.5% year on year growth in turnover. The growth was attributable to the new retail brand "Fonperi" launched in April 2007. Other markets, including Hong Kong and Malaysia, remained insignificant and accounted for less than 2% of the total turnover.

Turnover in the PRC surged 32.0% or HK$76.8 million to HK$316.8 million. The increase in turnover generated from the PRC market was mainly due to an encouraging increase of HK$77.4 million in product sales, representing a year-on-year growth of 33.7%. The increase in product sales was resulted from effective brand and store image revamp program commenced in April 2005. The average store sales of the PRC market recorded a further growth of 19% in 2007. Service income also recorded 22.7% year on year growth, as a result of new and renovated self-owned spas opened during the year.

In Taiwan, turnover increased by 10.5% or HK$12.0 million to HK$126.8 million in 2007 as compared to HK$114.8 million in 2006. The improvement in turnover was resulted from the introduction of our new retail brand "Fonperi" in the Taiwan market. The initial market response of this new retail brand is encouraging. There was HK$15.4 million of product sales directly attributable to the Fonperi line. Excluding the "Fonperi" retail products which were sold under different distribution channel, the average store sales in respect to Taiwan's existing spa channel registered a 4.5% year on year growth.

Other markets include Hong Kong and Malaysia, while 2 stores are in Hong Kong and 51 stores in Malaysia as at 31 December 2007. These regions remained immaterial and accounted for less than 2% of the total turnover.

The Group's overall gross profit margin further increased from 81.1% in 2006 to 82.8% in 2007.

BY ACTIVITIES	**2007** ***HK$***	2006 *HK$*	Variance *HK$*	Variance *%*
Product Sales				
PRC	**307,161**	229,740	77,421	33.7%
Taiwan	**118,130**	97,374	20,756	21.3%
Others	**5,125**	7,446	(2,321)	-31.2%
Total	**430,416**	334,560	95,856	28.7%
Service				
PRC	**6,830**	5,567	1,263	22.7%
Taiwan	**8,707**	17,446	(8,739)	-50.1%
Others	**1,377**	1,469	(92)	-6.3%
Total	**16,914**	24,482	(7,568)	-30.9%
Entrustment				
PRC	**2,817**	4,704	(1,887)	-40.1%
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**2,817**	4,704	(1,887)	-40.1%

	2007		2006		Changes	
Turnover by activities	***HK$'000***	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Products	**430,416**	**95.6%**	334,560	92.0%	95,856	28.7%
Services	**16,914**	**3.8%**	24,482	6.7%	(7,568)	-30.9%
Entrustment	**2,817**	**0.6%**	4,704	1.3%	(1,887)	-40.1%
Total	**450,147**	**100.0%**	**363,746**	**100.0%**	**86,401**	**23.8%**

Turnover by activities

Products

The Group is principally engaged in the manufacture and sale of several types of products, namely skin care products, beauty products, aromatherapeutic products, color make up and heath supplements, under the "Natural Beauty" and "Fonperi" brand names. Product sales represent the Group's key revenue contributor and are primarily made through franchisee and self-owned spas and retail outlets. Products sales amounted to HK$430.4 million, or 95.6% of total revenue in 2007, compared to HK$334.6 million, or 92.0% in 2006. Gross margin of product sales increased by 1.4 percentage points to 87.2% in 2007, from 85.8% in 2006.

The increase in products sales was mainly attributable to the HK$77.4 million increase in sales generated from the PRC market as a result of the robust Chinese economy growth, a successful brand revamping program, including the overall brand image, franchised store image and new product packaging of the Group initialed in 2005. There were 363 products repackaged by the end of 2007. The product sales margins in the PRC increased to 87.7%, up 2.3 percentage points from 85.4% for the previous year. Besides, the Group provided free intensive training sessions in 2007 to the franchisees in the PRC market in order to improve both the service quality and the selling skills which stimulated the product sales. Taiwan market also recovered from the declining trend for the past two years although Taiwan economy was still in recession during the period under review. Taiwan market recorded HK$118.1 million in sales, with an encouraging growth of 21.3% from HK$97.4 million in 2006. If retail sales of Fonperi was excluded, our spa products still registered a 5.5% growth over 2006.

Our retail brand "Fonperi" launched in April 2007 is experiencing rapid market expansion. During 2007, total sales of "Fonperi" products amounted to HK$15.4 million.

Other markets in Hong Kong and Malaysia only accounted for 1.2% of total product sales for the year.

	2007		2006		Changes	
Service income	***HK$'000***	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Training income	**1,332**	**7.9%**	1,975	8.1%	(643)	-32.6%
SPA service income	**13,356**	**79.0%**	12,110	49.5%	1,246	10.3%
Management fee income	**1,314**	**7.8%**	8,503	34.7%	(7,189)	-84.5%
Others	**912**	**5.3%**	1,894	7.7%	(982)	-51.8%
Total	**16,914**	**100.0%**	**24,482**	**100.0%**	**(7,568)**	**-30.9%**

Services

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

The Group provides skin treatments, beauty and spa services through its self-owned spas. Service income are generated only from our self-owned spas as the Group does not share any service income generated in the franchised spas with franchisees under the current franchise programme. Service income generated from franchised spas is vital for them to cover their operating expanses such as rental, salary and utility. During the year, income from services decreased by 30.9% to HK$16.9 million when compared with 2006, which was mainly attributable to the reduction of management fee income in the Taiwan markets. Since 2007, the management decided not to charge the franchised stores in Taiwan for management fee income, resulted in the reduction of HK$7.5 million management fee income.

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

Also, service income generated from training income decreased by 32.6% to HK$1.3 million during the year under review, as training is viewed as an integral part of our business model to ensure the service quality of our franchise networks and not intended to be a profit centre.

On the other hand, SPA service income from self-own stores increased by 10.3% to HK$13.4 million, mainly due to the growth in income derived from self-own spas in PRC market. With more self-own spa opened and free training provided to improve the service quality, service income in the PRC market increased by HK$1.3 million or 22.7% to HK$6.8 million in 2007.

Entrustment

Entrusted spas are owned by the Group and operated by reputable operators. The spas were previously operated by the Group. In order to allocate financial and human resources more efficiently, the Group has entrustment arrangements in PRC ranging from one to five years, where our self-owned spas were entrusted to reputable operators in the local areas. The operators are responsible for all the profits and losses of the operations and sell the Group's products in their stores, while the Group receives a fixed annual entrustment fee until those operators repay the Group's initial investment in 5 years. The entrusted spas then become regular franchised spas.

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

The entrustment income decreased by 40.1% to HK$2.8 million in 2007 compared to HK$4.7 million in 2006. The drop in entrustment income was because certain entrustment arrangements were expired during the year.

Other income

Other income mainly represented the rental income from investment properties of HK$3.7 million, interest income of HK$6.8 million, financial refunds of HK$9.7 million, realized and unrealized gain on held-for-trading investments of HK$4.1 million, gain on disposal of an associate of HK$1.0 million, gain on disposal of investment property of HK$1.2 million and others for the remaining balance. Other income decreased by 31.4%, or HK$14.8 million from HK$47.3 million in 2006 to HK$32.5 million in 2007. The decrease is mainly attributable to the decrease in financial refund in PRC of HK$16.8 million as we accrued the refund up to the first half year of 2007. Also, we have sold one of the investment properties during the year which resulted to the decrease in rental income by HK$2.5 million.

Distribution and administrative cost

The Group's distribution and selling costs as a percentage of turnover decreased from 27.9% in 2006 to 26.2% in 2007. The total costs in dollar terms increased by HK$16.5 million, from HK$101.4 million in 2006 to HK$117.9 million in 2007. We continue to increase our advertising exposure in various media, the Group's advertising costs and promotional expenses increased by HK$8.2 million to HK$59.4 million in 2007. In percentage terms, it represents 13.2% of total turnover in 2007 compared to 14.1% in 2006. Other key expense items mainly include salary, commission, travel expenses and rental expenses, which amounted to HK$16.4 million, HK$4.4 million, HK$5.3 million and HK$11.8 million respectively.

Administrative expenses as a percentage of turnover slightly increased from 16.3% in 2006 to 16.6% in 2007. The cost mainly covered salary, legal and professional fee, depreciation and rental charges. Total administrative expenses increased by HK$15.0 million to HK$74.5 million in 2007 compared to HK$59.5 million in 2006. It is mainly caused by the additional salary expenses for the executives recruited from multinational corporations for PRC and Taiwan operation.

Other expenses

Other expenses in 2007 totaled HK$4.2 million, reduced by 38.3% compared to HK$6.9 million in 2006, mainly represented the bank charges of HK$2.2 million. The main reason for the reduction of expenses was because there was loss of disposal of fixed assets, resulting from the shop revamping exercises in PRC in the previous year. In addition, inventory provision of HK$1.3 million was charged in 2006, partly due to the product repackaging initiative.

Profit before taxation

The increase in gross profit, netting the reduction in other income, the increase in distribution and administrative cost, as well as decrease in other expenses, has led to 19.2% surge in profit before tax, from HK$174.5 million in 2006 to HK$208.0 million in 2007.

Taxation

Taxation expenses decreased 43.4% from HK$51.6 million in 2006 to HK$29.2 million in 2007. The effective tax rate of the Group for financial year ended 31 December 2006 and 2007 were 29.6% and 14.1% respectively. The drop in effective tax rate was benefited from our PRC operation, where a subsidiary started to utilize the first year benefit from its two-year exemption followed by three-year half deduction profit tax holiday (2+3 tax holiday).

Net profit for the year

As a result, the net income for the year increased by 45.6% from HK$122.8 million in 2006 to HK$178.8 million in current year.

Liquidity and financial resources

Cash generated from operating activities for 2007 was approximately HK$274.2 million (2006: HK$106.2 million). The increase was primarily due to the changes in working capital. As at 31 December 2007, the Group had bank balances and cash of approximately HK$588.7 million (2006: HK$356.2 million and trading securities which are mainly quasi-money market funds of approximately HK$27.7 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2006 and 2007, the Group's gearing ratio was zero (defined as net debt divided by shareholders' equity) as the Group has a net cash balance as at both year end dates. Current ratio of the Group (defined as current assets divided by current liabilities) as at 31 December 2006 and 2007 were 5.7 times and 7.2 times respectively. As at 31 December 2007, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and bank balances in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and working capital requirements.

Charges on assets

There was no asset pledged as at 31 December 2007.

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of its revenue denominated in Renminbi and New Taiwan Dollar from the PRC and Taiwan as its operations are mainly concentrated in these two geographical areas. As at 31 December 2007, approximately 44.9% (2006: 66.9%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 33.6% (2006: 22.2%) was denominated in New Taiwan Dollar and the remaining 21.5% (2006: 10.9%) was denominated in United States Dollars, Hong Kong Dollars and Malaysia Ringgits. The Group continued to adopt a conservative approach in respect of foreign exchange exposure management. Review of the Group's exposure to foreign exchange risk will be conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

Business Review

By geographic region	**2007**	2006	Variance	Variance
	HK$	*HK$*	*HK$*	%
PRC				
Turnover – Product sales	**307,161**	229,740	77,421	33.7%
Turnover – Service	**6,830**	5,567	1,263	22.7%
Turnover – Entrustment	**2,817**	4,704	(1,887)	-40.1%
PRC Total	**316,808**	240,011	76,797	32.0%
Taiwan				
Turnover – Product sales	**118,130**	97,374	20,756	21.3%
Turnover – Service	**8,707**	17,446	(8,739)	-50.1%
Turnover – Entrustment	**–**	–	–	n/a
Taiwan Total	**126,837**	114,820	12,017	10.5%
Others				
Turnover – Product sales	**5,125**	7,446	(2,321)	-31.2%
Turnover – Service	**1,377**	1,469	(92)	-6.3%
Turnover – Entrustment	**–**	–	–	n/a
Others Total	**6,502**	8,915	(2,413)	-27.1%

PRC Market

The Group has implemented its brand revamping exercise since 2005. In 2007, the efforts started to pay off and brought encouraging growth for product sales. The growth was also resulted from the intensive training on service quality and selling skills of the franchised stores. The product sales in the PRC increased by 33.7% to reach HK$307.2 million. Product gross margin also registered a growth of 2.3 percentage points, from 85.4% to 87.7% in the year under review.

The Group's entrustment strategy continued to pay off. The Group entrusted its spas to reputable operators in established areas to enhance cost-efficiency. Although the Group only received entrustment fees and product revenue from the operators, the entrustment successfully minimized the loss incurred in the past. Hence the Group's overall gross profit in the PRC increased by HK$71.3 million and the overall gross margin increased from 81.9% to 84.5% in 2007, representing a year-on-year growth of 2.6 percentage points.

The operating profit increased by 34.6% to HK$174.0 million as compared to HK$129.3 million in 2006. While operating margin improved from 53.9% in 2006 to 54.9% in 2007, the overall net margin in the PRC also improved from 37.2% in 2006 to 49.9% in 2007.

Taiwan Market

Despite the economic recession in Taiwan during 2007, the product sales in this market increased by 21.3% to HK$118.1 million in 2007 as compared to HK$97.4 million in 2006, which was mainly attributable to the HK$15.4 million from our newly launched retail brand "Fonperi" products with sales debut in April 2007.

The service revenue generated from the Taiwan market decreased by HK$8.7 million compared to that of last year, as we have decided not to charge the management fee income to the franchised stores in Taiwan market, to remain competitive in the crowd market.

Distribution channels

Store Number by Ownership

As at 31 December 2007	Franchisee owned Spa	Entrusted Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Group Total	Retail Channel	Grand Total
Taiwan	447	–	10	457	–	–	–	457	1,394	1,851
PRC	1,400	1	7	1,408	10	47	57	1,465	–	1,465
Others	5 1	–	2	53	–	–	–	53	–	53
Total	**1,898**	**1**	**19**	**1,918**	**10**	**47**	**57**	**1,975**	**1,394**	**3,369**

Store Number by Ownership

As at 31 December 2007	Franchisee owned	Entrusted	Self owned	Retail Channel	Total
Taiwan	447	–	10	1,394	1,851
PRC	1,400	11	54	–	1,465
Others	51	–	2	–	53
Total	**1,898**	**11**	**66**	**1,394**	**3,369**

Average Sales per Store without adjusting PRC Store numbers:

Average sales per store	**2007** **Average store***	2006 Average store*	**2007** **Average sales per store** ***HK$***	2006 Average sales per store *HK$*	Changes *HK$*	Changes %
PRC	**1,765.0**	1,626.0	**179,000**	148,000	31,000	20.9%
Taiwan	**483.5**	523.0	**230,000**	220,000	10,000	4.5%
Group total**	**2,274.0**	**2,194.5**	**188,000**	**166,000**	**22,000**	**13.3%**

Average Sales per Store after adjusting PRC Store numbers:

Average sales per store	**2007** **Average store***	2006 Average store*	**2007** **Average sales per store** ***HK$***	2006 Average sales per store *HK$*	Changes *HK$*	Changes %
PRC (see note)	**1,407.0**	1,268.0	**225,000**	189,000	36,000	19.0%
Taiwan	**483.5**	523.0	**230,000**	220,000	10,000	4.5%
Group total**	**1,890.5**	**1,791.0**	**227,000**	**198,000**	**29,000**	**14.6%**

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

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

Note: The group has revised the average store numbers in both 2006 and 2007. Before 2007, there was no enforcement of formal procedures to finalise the termination of franchisee contracts. As at 31 December 2007, there were 358 stores which had not completed all the closure procedures over the years and remained on the list, but the stores are no longer existed at the recorded addresses, including those affected by urban re-development at their previous locations (e.g. Beijing area).

The Group principally derives income through our unique distribution channels, namely spas and counters in department stores. As at 31 December 2007 there were 1,918 spas and 57 counters. All spas provide a variety of services, including hydrotherapy, facial, body care and skin care analysis to its customers, whereas counters in department stores usually provide skin care analysis.

As of 31 December 2007, there were total 1,898 franchisee spas, and 19 spas and 47 counters directly operated by the Group. There were also 1 spa and 10 counters being entrusted to reputable operators.

A total of 238 new stores were opened during the year, and 173 stores were closed, stores that have closed were mainly seeking larger locations or were forced to move due to Beijing Olympics.

In order to present a more meaningful view of the operations for comparison purpose, we have revised the respective store numbers to present consistent average sales per store for our effective stores for each of the years ended 31 December 2006 and 2007. The average sales per store in PRC increased by 19% from HK$189,000 in 2006 to HK$225,000 in 2007. In Taiwan, we still managed to improve average sales per store by 4.5% despite the overall economy recession.

Our target is to encourage franchisees to open bigger spas with revamped image, to improve the average store sales through adding more service spaces. There were also 161 retail outlets in Taiwan to pilot test retail products as of 31 December 2006. Since the launch of the Fonperi products, the retail outlets in Taiwan has increased to 1,394 points of sales as at 31 December 2007 including Watsons, Carrefour, Geant, RT-Mart, Wellcome, FamilyMart and others.

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

Self-owned spas are primarily set up to act as a model spa for potential franchisees. While there are needs to establish self-owned spas as model spas in new markets, the Group considers it would be more profitable with high product gross margin and cost-efficient as a whole to allocate resources to stimulate product sales instead of expanding the operation of self-owned spas, as higher overhead costs were incurred compared to franchised spas. The Group, therefore, has entrusted and will continue to entrust certain of its self-owned spas in explored markets to reputable operators.

The Group believes the entrustment strategy will create a win-win situation for both the operators and the Group. Local operators can better serve the specific needs of local customers, and hence generate more sales and service revenues. The Group, on the other hand, can secure a steady annual entrustment income while maintaining its distribution network and re-allocating its resources to explore new markets. In 2007, the Group's overall gross margin further improved to 82.8%, compared to 81.1% in 2007, representing a year-on-year growth of 1.7 percentage points.

Store-Front Revamp of Existing Franchised Spas

As the Group has a vast network of franchised spas, it is impractical to request all the franchisees to renovate their spas according to Group's new franchised store image. Therefore, the Group has an interim arrangement and allows the existing franchisees to revamp their spa with minimum efforts and financial resources. As at 31 December 2007, 99% of all our spas have revamped the store image.

Product Repackaging

The Group's brand revamping exercise is also extended to product packaging. In order to have a consistent image, the Group has re-designed all its product packages and simplified the package type of over 200 various forms for more than 700 types of products to 24 standard forms only. A total of 363 (2006: 221) products have changed their product packages by the end of 2007. This has led to a higher product gross margin in the PRC from 85.4% in 2006 to 87.7% in 2007, up by 2.3 percentage points. We will continue to repackage our existing product lines by phases in 2008.

Research and Development

In order to maintain our competitive edge, the Group emphasizes on research and development, so as to improve the quality of the existing products and develop new products. The Group has been collaborating with overseas cosmetic companies on technological development, imported biotechnology materials from Europe, Japan and Australia, which have been applied in over 700 NB's products. The Group's research and development team comprises 13 members and a number of overseas consultants with experience and expertise in cosmetics, medical, pharmacy and bio-chemistry. NB's products are constantly enhanced and modified with new ingredients developed by its research and development team. The Group believes that the collaboration of different expertise and experience within the team, together with Dr. Tsai's over 30 years of industry experience and knowledge, can help develope high quality beauty and skin care products. NB principally uses natural ingredients in producing its products and adopts special formulation to suit the specific needs of the delicate skin type for oriental women. NB's products are attentive to the natural metabolism of skin with long-lasting effects.

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

In addition to NB's dedicated research and development team, NB has collaborated with a leading researcher in the field of human genome and stem cell technology, in the development of anti-aging NB-1 product family and other products for spot removing, whitening, anti-allergy and slimming. Combining Dr. Tsai's over 30 years of experience in the beauty and skin care industry and together with the strong background of its research and development staff, NB has the competitive advantages in the research and development of beauty and skin care products.

The total research and development costs for the year ended 31 December 2007 amounted to HK$1.7 million (2006: HK$2.0 million).

New Products

After the successful launch of our flagship product, anti-aging NB-1 series in late 2003, we further launched NB-1 Whitening series, NB-1 anti-allergy and NB-1 pore refining series. In 2007, over 176,000 sets/bottles (2006: 162,000 sets/bottles) of NB-1 family products were sold with a turnover of HK$134.5 million (2006: HK$120.6 million), accounting for nearly one-third of the total product sales during 2007.

We also launched a retail brand "Fonperi" in Taiwan in April 2007, Fonperi products are sold via retail channels like hypermarkets and drugstores, including 6 key accounts, namely Watsons, Carrefour, Geant, RT-Mart, Wellcome and FamilyMart, as well as 10 wholesalers. There were 1,394 retails points of sales selling "Fonperi" products in Taiwan. Since the launch in April 2007, over 400,000 units were sold with a turnover of HK$15.4 million by the end of 2007.

In 2007, the Group continued to enrich the product range and launched 39 new products.

Information Technology

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

The implementation of the ERP in Taiwan was completed in 2004. There were three logistic centres in PRC operated by the Group. The Warehouse Management System (WMS) is now linked to Oracle ERP system. The implementation of all modules of the ERP in the PRC is now under the pivot testing stage.

In order to improve operating efficiency, the Group has developed a B2B portal for our franchisee to order goods online. In addition, we also have a B2C portal in our website for retail customers to shop online.

Human Resources

As at 31 December 2007, the Group had a total of 916 employees, of which 697 were based in PRC, 200 in Taiwan and 19 in other areas. Total remuneration (excluding directors' emoluments) for the year ended 31 December 2007 was appropriately HK$79.5 million (2006: HK$58.4 million), including retirement benefits cost of HK$7.9 million (2006: HK$6.1 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a periodical basis.

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

In addition, the Group has adopted a share option scheme on 11 March 2002, for the purpose of providing incentives and reward to eligible participants who contributed to the success of the Group's operations. The Directors may, at their discretion, invite any employee or director of the Group and any qualified person as set out in the scheme, to subscribe for shares. On 27 July 2007, the Group granted options to certain employees to subscribe a maximum of 1,729,542 shares, subject to achieving certain performance targets. The stock options could be vested at a ratio of 50%, 30% and 20% for a three-year period.

The Directors also strengthened its professional management team by recruiting chief operational officer and some key management positions like head of sales and head of marketing for PRC and Taiwan market from multinational companies. The board believes that the recruitment of more industry experts will be beneficial to the Group's expansion for its long-term development in future.

Capital Expenditures

The Group's major capital expenditures were related to self-owned spas and machinery in our factories. During the year, the Group has acquired land and certain properties in PRC region for the factory to expand our production capacity in PRC market. There were HK$53.8 million additions to fixed assets in 2007 (2006: HK$11.3 million), including a factory purchased in Shanghai for HK$30.4 million to expand the production capacity, renovation as well as addition of furniture and fixtures for our self-owned spas amounted to HK$9.6 million and HK$9.1 million respectively.

Franchisees are responsible for the capital expenditures of their spas.

Outlook

China

Regardless of the recent global financial turmoil, China is still one of the fastest growing economies in the world, with consumer confidence running high. China remains the Group's strategic focus in the foreseeable future. We will continue to enhance the quality and consistency of the network and plan to open another 250 stores in 2008 and will continuously strive to achieve consistent growth in average sales per store by introducing new products in the portfolio.

Taiwan

Completion of the Taiwan Presidential election is expected to bring an end to the political uncertainties, furthermore, in light of the closer economic ties between the mainland and Taiwan, Taiwan's economy is expected to see strong recovery in 2008.

Our retail brand "Fonperi" launched in April 2007 is experiencing rapid market expansion and expected to increase the number of our retail points of sales from 1,394 at the end of 2007 to around 4,000 by the end of 2008.

For both markets, new products especially full-ranged health supplements will be introduced to reach extended family and friends of our existing client base.

CORPORATE GOVERNANCE

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

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

Audit Committee

The audit committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The financial statements of the Company for the year ended 31 December 2007 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

Remuneration Committee

The remuneration committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of executive directors and senior management and making recommendations to the Board from time to time.

Compliance with the Code on Corporate Governance Practices

None of the Directors of the Company is aware of any information that would reasonably indicated that the Company is not, or was not any part of the accounting period covered by the 2007 financial statements, in compliance of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Compliance with the Model Code

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

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

During the year ended 31 December 2007, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$0.0420 per share (2006: final dividend of HK$0.030) and a final special dividend of HK$0.0580 per share (2006: HK$0.0125). Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on around 8 July 2008 to shareholders whose names appear on the register of members of the Company as at the close of business on 6 June 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 June 2008 to 6 June 2008, both dates inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for both the proposed final dividend and final special dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 3 June 2008.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

This annual results announcement is also published on the website of the Stock Exchange and that of the Company at www.nblife.com/ir. An annual report of the Company containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be despatched to the shareholders and will be published on the website of the Company and that of the Stock Exchange in due course.

By order of the Board
Dr. Tsai Yen Yu
Chairman

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

Hong Kong, 10 April 2008