自然美

natural beauty

Natural Beauty Bio-Technology Limited

自然美生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code:157)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

RESULTS

The directors of Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005, together with the comparative figures for 2004, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**2005** *HK$'000*	2004 *HK$'000*
Turnover	*5*	**357,916**	358,142
Cost of sales		**(73,309)**	(82,291)
Gross profit		**284,607**	275,851
Other operating income	*7*	**43,135**	23,097
Distribution costs		**(127,655)**	(126,921)
Administrative expenses		**(61,961)**	(63,873)
Other operating expenses		**(18,221)**	(8,759)
Share of loss of an associate		**(60)**	(337)
Profit before taxation	*8*	**119,845**	99,058
Income tax expense	*9*	**(38,834)**	(36,333)
Profit for the year		**81,011**	62,725
Attributable to:			
Equity holders of the Company		**81,092**	63,262
Minority interests		**(81)**	(537)
		81,011	62,725
Dividends	*10*	**66,000**	50,000
Earnings per share	*11*		
Basic		**HK 4.1 cents**	HK 3.2 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Investment properties		**159,653**	160,459
Property, plant and equipment		**178,725**	183,445
Prepaid lease payments		**9,039**	9,275
Intangible assets		**927**	2,137
Goodwill		**13,898**	16,801
Interest in an associate		**545**	605
Other long-term receivables		**–**	5,158
Available-for-sale investments		**6,786**	–
Investments in securities		**–**	6,786
Deferred taxation assets		**4,716**	4,729
		374,289	389,395
Current assets			
Inventories		**56,477**	55,726
Trade and other receivables	*12*	**141,229**	124,576
Prepaid lease payments		**236**	236
Held-for-trading investments		**26,491**	–
Investments in securities		**–**	94,378
Bank balances and cash		**338,748**	235,920
		563,181	510,836
Current liabilities			
Trade and other payables	*13*	**82,041**	60,160
Deferred income		**8,489**	9,172
Taxation payable		**15,753**	16,103
		106,283	85,435
Net current assets		**456,898**	425,401
Total assets less current liabilities		**831,187**	814,796
Non-current liabilities			
Retirement benefit obligations		**10,890**	10,165
		820,297	804,631
Capital and reserves			
Share capital		200,000	200,000
Reserves		613,511	594,969
Equity attributable to equity holders of the Company		813,511	794,969
Minority interests		6,786	9,662
Total equity		820,297	804,631

Notes:

1. **GENERAL**

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

2. **BASIS OF PREPARATION**

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

   The consolidated financial statements have been prepared in accordance with HKFRS 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 and by the Hong Kong Companies Ordinance.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The change in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3, Business Combinations which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group is in relation to goodwill.

In previous years, goodwill was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group on 1 January 2005 eliminated the carrying amount of the related accumulated amortisation of HK$11.3 million with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated. (See Note 4 for the financial impact).

In the current year, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current or prior accounting years. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Investments in debt and equity securities previously accounted for under the benchmark treatment of SSAP 24

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Investments in Securities" issued by the HKICPA. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its investments in debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Financial assets and financial liabilities other than investments in debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than investments in debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

The adoption of HKAS 39 has had no material effect on the results for the current accounting year.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (See Note 4 for the financial impact). As a result of this change in accounting policy, property, plant and equipment of HK$9.5 million has been decreased at 31 December 2004. The carrying amount of prepaid lease payment has been increased by HK$9.5 million at 31 December 2004. This change in accounting policy has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under SSAP 13 Accounting for Investment Properties were measured at open market values, with revaluation increase or decrease credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in the investment properties revaluation reserve of approximately HK$16.7 million at 1 January 2005 has been transferred to the Group's accumulated profits (See Note 4 for the financial impact).

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively (See Note 4 for the financial impact).

4. SUMMARY OF THE EFFECTS OF THE APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The effects of the application of HKFRSs described in note 3 on the results for the current and prior years which resulted in the following changes:

	2005	2004
	HK$'000	*HK$'000*
Administrative expenses		
Non-amortisation of goodwill	**6,755**	–
Other operating income		
Increase in fair value of investment properties	**4,477**	–
Income tax expense		
Increase in deferred taxation charge arising from investment properties	**(569)**	–
Increase in profit for the year	**10,663**	–

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK$'000	Effect of HKAS 1 HK$'000	Effect of HKAS 17 HK$'000	As at 31 December 2004 (restated) HK$'000	Effect of HKAS 39 HK$'000	Effect of HKAS 40 HK$'000	As at 1 January 2005 (restated) HK$'000
Balance sheet items							
Property, plant and equipment	192,956	–	(9,511)	183,445	–	–	183,445
Prepaid lease payments							
– non-current	–	–	9,275	9,275	–	–	9,275
– current	–	–	236	236	–	–	236
Investment in securities							
– non-current	6,786	–	–	6,786	(6,786)	–	–
– current	94,378	–	–	94,378	(94,378)	–	–
Available-for-sale investments	–	–	–	–	6,786	–	6,786
Held-for-trading investments	–	–	–	–	94,378	–	94,378
Other assets and liabilities	510,511	–	–	510,511	–	–	510,511
Total effects on assets and liabilities	804,631	–	–	804,631	–	–	804,631
Share capital and other reserves	663,716	–	–	663,716	–	–	663,716
Accumulated profits	114,512	–	–	114,512	–	16,741	131,253
Investment properties revaluation reserve	16,741	–	–	16,741	–	(16,741)	–
Minority interests	–	9,662	–	9,662	–	–	9,662
Total effects on equity	794,969	9,662	–	804,631	–	–	804,631
Minority interests	9,662	(9,662)	–	–	–	–	–
	804,631	–	–	804,631	–	–	804,631

The application of the new HKFRSs has had no financial impact on the Group's equity on 1 January 2004. The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

5. 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:

	2005	2004
	HK$'000	*HK$'000*
Sales of goods	**322,847**	324,730
Service income	**29,814**	28,338
Entrustment fee income	**5,255**	5,074
	357,916	358,142

6. 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 operating results and segmental 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 2005				
Turnover	**213,915**	**137,358**	**6,643**	**357,916**
Other operating income	**28,780**	**13,551**	**804**	**43,135**
Total revenue	**242,695**	**150,909**	**7,447**	**401,051**
Segment results	**88,157**	**52,430**	**(14,707)**	**125,880**
Unallocated corporate expenses				**(5,975)**
Share of loss of an associate				**(60)**
Profit before taxation				**119,845**
Income tax expense				**(38,834)**
Profit for the year				**81,011**

Consolidated balance sheet

	PRC	**Taiwan**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Assets				
Segment assets	504,092	372,023	9,738	885,853
Interest in an associate	545	–	–	545
Unallocated corporate assets				51,072
Consolidated total assets				937,470
Liabilities				
Segment liabilities	48,786	45,522	3,111	97,419
Unallocated corporate liabilities				19,754
Consolidated total liabilities				117,173
Other information				
Capital expenditure	19,697	2,930	2,270	24,897
Depreciation	16,921	6,831	914	24,666
Impairment loss of goodwill	3,192	–	–	3,192
Write off of intangible assets	325	–	–	325
Release of prepaid lease payments	236	–	–	236
Loss on disposal of property, plant and equipment	1,678	–	2,203	3,881
Amortisation of intangible assets	915	–	–	915
Allowance for obsolete inventories	4,436	2,969	1,058	8,463
Impairment loss on trade receivables	793	43	2,475	3,311

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
For the year ended 31 December 2004				
Turnover	214,061	142,150	1,931	358,142
Other operating income	14,161	8,540	396	23,097
Total revenue	228,222	150,690	2,327	381,239
Segment results	71,328	40,516	(1,840)	110,004
Unallocated corporate expenses				(10,609)
Share of loss of an associate				(337)
Profit before taxation				99,058
Income tax expense				(36,333)
Profit for the year				62,725

Consolidated balance sheet

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
Assets				
Segment assets	462,399	390,018	15,077	867,494
Interest in an associate	605	–	–	605
Unallocated corporate assets				32,132
Consolidated total assets				900,231
Liabilities				
Segment liabilities	26,214	45,423	72	71,709
Unallocated corporate liabilities				23,891
Consolidated total liabilities				95,600
Other information				
Capital expenditure	8,122	5,843	218	14,183
Depreciation	21,276	6,491	1,152	28,919
Release of prepaid lease payments	236	–	–	236
Loss on disposal of property, plant and equipment	217	–	–	217
Amortisation of intangible assets	1,074	–	–	1,074
Amortisation of goodwill	6,720	35	–	6,755
Allowance for obsolete inventories	1,783	–	–	1,783

Business segments

For management purposes, the Group is currently organised into 2 operating divisions - sale of cosmetic products and provision of beauty services and 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 operating income from this segment is not included as turnover.

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

	Turnover		**Other operating income**	
	2005 ***HK$'000***	2004 *HK$'000*	**2005** ***HK$'000***	2004 *HK$'000*
Cosmetic products and beauty services	**357,916**	358,142	**–**	–
Investment properties	**–**	–	**10,303**	5,568
Others	**–**	–	**32,832**	17,529
	357,916	358,142	**43,135**	23,097

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	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cosmetic products and beauty services	**726,200**	707,035	**24,897**	14,183
Investment properties	**159,653**	160,459	**–**	–
	885,853	867,494	**24,897**	14,183

7. OTHER OPERATING INCOME

	2005	2004
	HK$'000	*HK$'000*
Rental income from investment properties	**5,826**	5,568
Interest income on bank deposits	**3,297**	1,956
Financial refunds (note)	**19,621**	9,977
Increase in fair value of investment properties	**4,477**	–
Gain on disposal of held-for-trading investments/ investment in securities	**1,388**	1,739
Gain on acquisition of additional interest in a subsidiary	**2,709**	–
Others	**5,817**	3,857
	43,135	23,097

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, and could be treated differently in the future. 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.

8. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Staff costs:		
– directors' emoluments	**1,089**	818
– other staff costs	**56,693**	46,820
Retirement benefits scheme contributions, excluding directors:		
– contributions to defined contribution plan	**5,047**	4,470
– expenses recognised in respect of defined benefit plan	**944**	1,443
Total staff costs	**63,773**	53,551
Depreciation of property, plant and equipment	**24,666**	28,919
Amortisation of goodwill, included in administrative expenses	**–**	6,755
Amortisation of intangible assets, included in administrative expenses	**915**	1,074
Total depreciation and amortisation	**25,581**	36,748
Release of prepaid lease payments	**236**	236
Impairment loss on goodwill	**3,192**	–
Auditors' remuneration	**2,622**	2,639
Loss on disposal of property, plant and equipment	**3,881**	217
Write off of intangible assets	**325**	–
Research and development costs	**1,306**	1,994
Allowance for obsolete inventories	**8,463**	1,783
Cost of inventories recognised as expense	**35,427**	37,309
Impairment loss on trade receivables	**3,311**	–
and after crediting:		
Gain on acquisition of additional interest in a subsidiary	**2,709**	–
Rental income from investment properties, net of outgoings of HK$224,000 (2004: HK$581,000)	**5,602**	4,987
Rental income from other properties, net of outgoings of HK$315,000 (2004: HK$49,000)	**1,538**	933

9. INCOME TAX EXPENSE

	2005 HK$'000	2004 HK$'000
The charge comprises:		
Hong Kong Profits Tax	**–**	–
Taxation in other jurisdictions		
Current year	**35,263**	30,589
Underprovision in prior years	**3,635**	935
	38,898	31,524
Deferred taxation		
Current year	**(64)**	4,553
Underprovision in prior years	**–**	256
	(64)	4,809
	38,834	36,333

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

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

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

10. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Ordinary shares:		
Interim dividend, paid – HK$0.0090 per share (2004: HK$0.0075)	**18,000**	15,000
Special dividend, paid – HK$0.0040 per share (2004: HK$Nil)	**8,000**	–
Final dividend, proposed – HK$0.020 per share (2004: HK$0.0175 per share)	**40,000**	35,000
	66,000	50,000

The final dividend of HK$0.020 (2004: HK$0.0175) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

11. 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$81,092,000 (2004: HK$63,262,000) and on the number of 2,000,000,000 (2004: 2,000,000,000) ordinary shares of the Company in issue during the year.

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

12. TRADE AND OTHER RECEIVABLES

	2005 HK$'000	2004 HK$'000
Trade receivables	**77,891**	59,282
Prepayments and deposits	**14,760**	25,178
Financial refunds receivable	**19,206**	9,962
Other receivables	**29,372**	30,154
Total trade and other receivables	**141,229**	124,576

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:

	2005	2004
	HK$'000	*HK$'000*
Within 180 days	**71,956**	57,971
181 days to 365 days	**5,022**	288
1 to 2 years	**307**	293
Over 2 years	**606**	730
	77,891	59,282

The fair value of the Group's trade and other receivables at 31 December 2005 was approximate to the corresponding carrying amount.

13. TRADE AND OTHER PAYABLES

	2005	2004
	HK$'000	*HK$'000*
Trade payables	**16,593**	10,118
Deposits from customers	**16,088**	6,499
Other tax payables	**15,785**	7,296
Other payables	**33,575**	36,247
Total trade and other payables	**82,041**	60,160

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

	2005	2004
	HK$'000	*HK$'000*
Within 180 days	**15,949**	9,971
181 days to 365 days	**500**	–
1 to 2 years	**–**	147
Over 2 years	**144**	–
	16,593	10,118

The fair value of the Group's trade and other payables at 31 December 2005 was approximate to the corresponding amount.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by geographical region	**2005**		2004		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PRC	**213,915**	**59.8%**	214,061	59.8%	(146)	-0.1%
Taiwan	**137,358**	**38.4%**	142,150	39.7%	(4,792)	-3.4%
Others	**6,643**	**1.8%**	1,931	0.5%	4,712	244.0%
Total	**357,916**	**100.0%**	358,142	100.0%	(226)	-0.1%

Average sales per store	**2005 Average store***	2004 Average store*	**2005 Average sales per store**	2004 Average sales per store	Changes	Changes
			HK$	*HK$*	*HK$*	*%*
PRC	**1,533.5**	1,607.5	**139,000**	133,000	6,000	4.5%
Taiwan^	**530.0**	600.0	**259,000**	237,000	22,000	9.3%
Group total**	**2,083.5**	2,209.0	**169,000**	161,000	8,000	5.0%

* 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.

^ 2004: Hong Kong was under entrustment, average store number in Taiwan adjusted to include Hong Kong Market.

Turnover has slightly decreased by 0.1% to HK$357.9 million in 2005 compared to HK$358.1 million in 2004. The decrease in turnover is attributable to the recession of Taiwan economy and the structural changes of product vs. service income in PRC. The Group average sales per store increased by 5.0% from HK$161,000 in 2004 to HK$169,000 in 2005.

In the PRC, the turnover decreased by 0.1% or HK$0.1 million to HK$213.9 million. The relatively small decrease in PRC turnover is the net effect of increased product sales of HK$10.1 million, increase in entrustment income of HK$0.2 million and the reduction of service revenue of HK$10.4 million. We continued to entrust our self-owned spas in established areas to reputable operators to mitigate our losses, thus resulting in the reduction of our service revenue contributed. However, PRC has recorded a growth in products sales of 5.3% for year 2005 due to the entrustment strategy. We have gross losses on service income as our spas are used as model spas for potential franchisees and are not sales oriented. The products sales, as a result of our brand revamp and store image revamp program started in April 2005, has boosted the average store sales by 4.5% from HK$133,000 in 2004 to HK$139,000 in 2005.

In Taiwan, turnover for the year decreased by HK$4.8 million, or 3.4% to HK$137.3 million in 2005 compared to HK$142.1 million in 2004. The decrease in Taiwan market is mainly attributable to recession of Taiwan economy, and our store revamp program in Taiwan was scheduled to launch in the first quarter of 2006.

Other markets includes Hong Kong and Malaysia, there are 2 stores in Hong Kong and 38 stores in Malaysia as at 31 December 2005. The operations of these regions remain immaterial and account for less than 2% of total turnover to the Group.

BY ACTIVITIES	**2005** *HK$'000*	2004 *HK$'000*	Variance *HK$'000*	Variance *%*
Products				
PRC	**200,979**	190,880	10,099	5.3%
Taiwan	**117,375**	131,919	(14,544)	-11.0%
Others	**4,493**	1,931	2,562	132.7%
Total	**322,847**	324,730	(1,883)	-0.6%
Services				
PRC	**7,681**	18,107	(10,426)	-57.6%
Taiwan	**19,983**	10,231	9,752	95.3%
Others	**2,150**	–	2,150	n/a
Total	**29,814**	28,338	1,476	5.2%
Entrustment				
PRC	**5,255**	5,074	181	3.6%
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**5,255**	5,074	181	3.6%

Turnover by activities	**2005**		2004		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Products	**322,847**	**90.2%**	324,730	90.7%	(1,883)	-0.6%
Services	**29,814**	**8.3%**	28,338	7.9%	1,476	5.2%
Entrustment	**5,255**	**1.5%**	5,074	1.4%	181	3.6%
Total	**357,916**	**100.0%**	358,142	100.0%	(226)	-0.1%

Products
The Group manufactures and sells three main types of products, namely skin care products, beauty products and aromatherapeutic products under the NB and Bio-up brand names. Sales of products are primarily made through spas and dedicated counters and are the Group's key revenue contributor, accounting for HK$322.8 million, or 90.2% in 2005, compared to HK$324.7 million, or 90.7% in 2004. Gross margin of products remain stable at 85.3%.

The drop in products sales is the net effect of increase in PRC products sales of HK$10.1 million, reduction in Taiwan of HK$14.5 million and improvement in other regions of HK$2.5 million. The increase in PRC product is attributable to the brand revamp program, which including the overall brand image, franchise store image and new product packaging. The reduction in Taiwan market is mainly attributable to the recession of Taiwan economy, and our store revamp program in Taiwan was only scheduled to launch in the first quarter of 2006.

Other markets include Hong Kong and Malaysia and only accounted for 1.4% of total product sales for the year.

Services
Service income including 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 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. Income from these services increased by 5.2% to HK$29.8 million. There was a decrease of service revenue in PRC of HK$10.4 million as we continue to entrust self-owned spas to reputable operators. On the other hand, Taiwan reported an increase in service revenue of HK$9.8 million, arising from the management and training fee received from 201 franchisees amounted to HK$8.0 million. The spas in Hong Kong previously entrusted were operated by the group since 1 January 2005.

While there are needs to establish self-owned stores in new markets as model spas, the Group considers it would be more profitable as a whole to allocate resources to stimulate product sales instead of operating our own spas, due to higher overhead costs compared to franchisees. The Group continues to entrust certain of our spas in explored markets to reputable operators.

Entrustment
In order to allocate our financial and human resources more efficiently, the Group has entrustment arrangements in PRC ranging from one to five years, where our self-owned spas were entrusted to reputable operators in the local areas. The operators will be responsible for all the profits and losses of the operations and the Group receives a fixed annual entrustment income. The Group sells products to the operators as one of our franchises.

The Group believes the entrustment arrangement will be a win-win situation 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 increased 3.6% to HK$5.3 million in 2005 compared to HK$5.1 million in 2004.

Other operating income
Other operating income mainly represented by rental income of HK$5.8 million, interest income of HK$3.3 million, financial refunds of HK$19.6 million and increase in fair value of investment properties of HK$4.5 million and others for the remaining balance. The other operating income increased by 86.8%, or HK$20.0 million from HK$23.1 million in 2004 to HK$43.1 million in 2005. The increase is mainly attributable to the increase in financial refund in PRC of HK$9.6 million due to higher operating profits of PRC subsidiaries; HK$4.5 million increase in fair value of investment properties in accordance with the Hong Kong Accounting Standard No. 40, which requires gains or losses arising from the changes in the fair value of investment properties to be recognized directly in the profit and loss for the year in which they arise (previously the changes in the fair value was recognized in the statement of equity); a gain on acquisition of additional

interest in subsidiary of HK$2.7 million and increase in interest income of HK$1.3 million due to increase in interest rate and average bank balances.

Distribution and administrative cost
The Group's distribution costs as a percentage of turnover remained stable at 35.7% compared to 35.4% in 2004. The administration expense reduced HK$1.9 million to HK$62.0 million in 2005 compared to HK$63.9 million in 2004.

Despite of our increased advertising exposure in various media, our group advertising costs has reduced by 4.5% to HK$77.1 million, as we continue to allocate our advertising budget to 4A advertising agencies which have stronger media-buying power, to achieve the operating efficiency. The savings was compensated by the increase in the travel and transportation expenses. The increase in travel expenses of HK$1.9 million was due to our fortifying of our franchisee dual track management system, where our expert teams travel to each city in PRC to provide assistance, to monitor and to ensure the local franchisees achieve the required competence and consistency of service quality, in addition to the local support to franchisees from our subsidiaries. The increase in transportation expense of HK$1.9 million was mainly due to the collaboration of China Post for the warehouse and inventory management, as well as logistics of deliveries in PRC. Capitalized on our experience in collaboration with China Post, we believe it would be more cost effective in enhancing the internal supply chain management and building our own distribution systems. We are currently managing the three warehouses in Shanghai, Beijing and Guangzhou to cover the whole PRC. The delivery of products, is currently out-sourced to other logistics companies in China.

Other operating expenses
Other operating expenses for the year of HK$18.2 million mainly represents provision of obsolete inventory of HK$8.4 million, loss on disposal of fixed assets of HK$3.8 million, donation of HK$1.2 million, bank charges of HK$1.3 million and loss on closure of branches and subsidiaries of HK$2.2 million. The main reason for the fluctuation as compared to last year was due to higher inventory provision was charged in current years, partly due to the product repackaging initiative.

Profit before taxation
The increase in gross profit, other operating income, in couple with the savings in administrative expense, net of the increase in other operating expenses, the profit before tax surged by 21.0%, from HK$99.1 million in 2004 to HK$119.8 million in 2005.

Taxation
Taxation expenses increased 6.9% from HK$36.3 million in 2004 to HK$38.8 million in 2005. The effective tax rate of the Group for financial year ended 31 December 2004 and 2005 were 36.7% and 32.4% respectively. The drop in effective tax rate is benefited from our Taiwan operation, where the Taiwanese Government offered tax reduction for Taiwan manufacturers who re-invest in Taiwan. The relatively high effective tax rate is attributable to the fact that there are withholding taxes on dividends paid by our Taiwan subsidiaries when the dividends were paid outside Taiwan. The total withholding tax expense charged by Taiwan tax authority amounted to HK$2.1 million in 2005 (2004: HK$2.1 million).

Net profit for the year
As a result, the net income for the year increased by 29.2% from HK$62.7 million in 2004 to HK$81.1 million in current year.

Liquidity and financial resources
Cash generated from operations for 2005 was approximately HK$150.9 million (2004: HK$161.8 million). The decrease was primarily due to increase of trade and other receivables balance. As at 31 December 2005, the Group had bank balances and cash of approximately HK$338.7 million (2004: HK$235.9 million) and trading securities (which are mainly capital guaranteed bond funds) of approximately HK$26.5 million (2004: HK$94.4 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2004 and 2005, 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 2004 and 2005 were 5.3 times and 6.0 times respectively. As at 31 December 2005, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and short term securities in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and working capital requirements.

Charges on assets
Certain freehold investment properties of the Group with a carrying amount of HK$155.3 million (2004: HK$156.1 million) are pledged to a bank. The banking facilities granted by the bank were terminated in 2002 but the charge has not been released to facilitate application of banking facilities in the future.

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 2005, approximately 68.1% (2004: 85.6%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 21.4% (2004: 4.3%) was denominated in New Taiwan Dollar and the remaining 10.5% (2004: 10.1%) 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
PRC Market
Our brand revamp exercise had been implemented for one year and the benefits started to reflect on the growth of product sales. Our product sales in PRC has increased by 5.3% to HK$201.0 million. We have also started the product repackage process in late 2005. The gross margin of product sales also recorded an improvement from 83.6% in 2004 to 85.1% in current year.

Our entrustment strategy continued to pay off. We entrusted our spas to reputable operators in established areas to mitigate our losses, as our spas are mainly used as model spas for potential franchisees, and are not sales oriented. Despite the service turnover has reduced by HK$10.4 million, our overall gross profit in PRC has increased by HK$13.6 million and the overall gross margin significantly improved from 73.7% in 2004 to 80.1% in 2005.

With the increase in other operating income, mainly the tax refund, the operating profit and net profit, both have surged by 23.6% in current year, to HK$88.2 million and HK$57.2 million respectively.

Taiwan Market
Taiwan has been in recession and our brand revamp exercise for Taiwan market was only scheduled to start in the first quarter of 2006. As a result, the product sales in Taiwan has dropped 11.0% to HK$117.4 million in 2005. The product sales gross margin, has dropped slightly from 88.7% in 2004 to 88.0% in 2005.

Due to the management and training fee received from 201 franchisees of approximately HK$8.0 million, which was introduced in 2005, the service revenue has surged by HK$9.8 million to HK$20.0 million in 2005. The overall gross margin, also recorded a slight improvement from 82.9% in 2004 to 83.1% in current year. The overall gross profit contribution reduced by HK$3.7 million in 2005 as compared to that of 2004.

Despite the drop in the gross profit contribution, the centralized advertising initiative has saved advertising cost of HK$14.4 million in Taiwan, and has resulted in the growth of operating profit by 29.4%, or HK$11.9 million in 2005.

In order to stimulate the Taiwan economy, the Taiwanese government had offered taxation reduction for companies re-investing in Taiwan. The application of such tax benefits by our subsidiaries in Taiwan had been approved and the full benefits started to reflect in current year. The effective tax rate in Taiwan, has been dropped from 22.2% in 2004 to 10.0% in 2005. As a result, the net profit surged by 49.7%, or HK$15.7 million, to HK$47.2 million in current year.

Distribution channels

Store Number by Ownership As at 31 December 2005	Franchisee owned Spa	Entrusted Spa	Self-owned Spa	Total Spa	Entrusted Counter	Self-owned Counter	Total Counter	Grand Total
Taiwan	527	–	9	536	–	–	–	536
PRC	1,415	28	3	1,446	22	77	99	1,545
Others	38	–	2	40	–	–	–	40
Total	1,980	28	14	2,022	22	77	99	2,121

Store Number by Ownership As at 31 December 2005	Franchisee owned	Entrusted	Self-owned	Total
Taiwan	527	–	9	536
PRC	1,415	50	80	1,545
Others	38	–	2	40
Total	1,980	50	91	2,121

The Group principally derives income through our unique distribution channels, namely spas and counters in department stores. There are total 2,121 store outlets as at 31 December 2005, of which 2,022 are spas and 99 are counters. All spas can provide hydrotherapy, facial, body care and skin care analysis to our customers and counters in department stores usually provide skin care analysis.

There are total 1,980 franchisee spas as of 31 December 2005, and 14 spas and 77 counters are directly operated by the Group. There are also 28 spas and 22 counters being entrusted to reputable operators.

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

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

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 will be responsible for all the profits and losses of the operations and the Group receives a fixed annual entrustment income from the operators. The Group also sells products to the operators as one of the franchises.

The Group believes the entrustment arrangement will be a win-win situation 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 revenues. The Group, on the other hand, can secure a steady annual entrustment income while maintaining the distribution location, and to re-allocate our resources to explore new markets. This entrustment strategy in PRC is proved successful as the overall gross margin has improved from 73.7% in 2004 to 80.1% in 2005, with an additional contribution of HK$13.6 million for current year.

Revamp Brand Image
We recognized the needs to transform our brand image through a more active strategy, to stay competitive. The brand revamp can be summarized in five main areas:

- New Logo
- New Franchise Store Image
- Existing Franchise Spa Store-Front Revamp
- Product Repackaging
- Website Relaunch

New Logo
We are pleased to receive countless applauses on our new logo design, and the new logo have been incorporated in all range of products, ranging from name card, stationery to carrying bags.

New Franchise Store Image
Similar to our logo, all new franchise spas need to have a refreshing and eye-catching image to attract and retain customers. We have set up model spas/image shop for potential franchisees. We will continue to promote and encourage existing franchisees to upgrade to the new franchise store image upon their renewal or renovation of their spas.

Existing Franchise Spa Store-Front Revamp
Since we have a vast network of franchise spa and it is impractical to request all the franchisees to renovate their spas according to our new franchise store image, we have an interim arrangement, for the existing franchise to revamp their spa, with minimum efforts and financial resources. As of 31 December 2005, there were 611 franchise spas have completed their store revamp.

Product Repackaging
Our brand revamp is also extended to product package. We have re-designed all our product packages. In order to offer a consistent image, we have simplified our package type of over 700 products in more than 200 various forms, and turned into 24 standard forms only. As at 31 December 2005, there were 60 products have their product packages changed. We expect to complete the product repackage exercise by end of 2006.

All our new packages are costing less than the original packages, with cost saving ranging from RMB0.06 to RMB12.14. We believe our repackaged products not only would improve the profit margin, the appealing look would also drive the sales of home-use products in the spas, one of our initiatives to further boost the store sales of each franchisee.

Website Relaunch
To facilities the end customers and franchisees, we have re-launched our websites in PRC in 2005 to realign the revamped image and to enrich the contents. The website provides all sorts of beauty tips, company activities, product information and online shopping to the end customers. There is also a section dedicated to potential franchisees. As at 31 December 2005, there were 1,136 visitors have provided personal details and interested in becoming one of our franchisees. The website, also has a Business-to-Business ("B2B") portal for franchisees to order their goods online.

Logistics
We had collaborated with China Post in 2005 to centralize our warehouses in more than 10 locations in China. We had set up three logistics centres with China Post. China Post was responsible for the warehouse management, inventory management and logistics of the delivery of products. Capitalized on our experience in collaboration with China Post, we believe it would be more cost effective in enhancing the internal supply chain management and building our own distribution systems. We are currently managing the three warehouses in Shanghai, Beijing and Guangzhou to cover the whole PRC. The delivery of products, is currently out-sourced to other logistics companies in China.

Research & Development
In order to maintain its competitive edge, the Group takes research and development seriously with a view to improve the quality of its existing products and develop new products. The Group has been collaborating with overseas cosmetic companies on technological development and imported European, American, Japanese and Australian biotechnology materials and applied them in over 700 NB's products. The Group's research and development team comprises 13 members

and a number of overseas consultants with experience and expertise in cosmetics, medical, pharmacy and bio-chemistry. NB's products are constantly enhanced and modified with new ingredients developed by its research and development team. The Group believes that the collaboration of different expertise and experience within the team together with Dr. Tsai's over 30 years of industry experience and knowledge can help developing high quality beauty and skin care products. NB principally uses natural ingredients in producing its products and have special formulation to especially suit the needs of the delicate skin of oriental women. NB's products are attentive to the skin's natural metabolism and its benefits are long-lasting.

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

In addition to NB's dedicated research and development team, NB has collaborated with a leading researcher, Dr. Chen Ji Dai, 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 & development cost for the year ended 31 December 2005 amounted to HK$1.3 million (2004: HK$2.0 million).

Products

After the successful launch of our flagship product, anti-aging NB-1 series in late 2003 and NB-1 Whitening series in 2004, this year the Group also launched NB-1 anti-allergy, pore refining series and six kinds of health supplement to our product line. In 2005, there were over 45,000 sets/bottles were sold with a turnover of HK$45.8 million.

We continue to enrich our product range in 2005, apart from the NB-1 whitening series, there were also health supplement and body sculpturing lingerie added. Total sales for the health supplement and body sculpturing lingerie for the year ended 31 December 2005 were HK$7.8 million and HK$5.8 million respectively.

Information Technology

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

The implementation of the ERP in Taiwan was completed and the implementation in PRC is expected to be completed in 2006.

Human Resources

As at 31 December 2005, the Group had a total of 878 employees, of which 682 were based in PRC, 177 in Taiwan and 19 in other areas. Total remuneration (excluding directors' emoluments) for the year ended 31 December 2005 was appropriately HK$62.7 million (2004: HK$52.7 million), including retirement benefits cost of HK$6.0 million (2004: HK$5.9 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 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 adopted a share option scheme on 11 March 2002, for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. The Directors may, at their discretion, invite any employee or director of the Group and any qualified person as set out in the scheme, to subscribe for shares. Up to the date of this document, no share option had been granted under the share option scheme.

Capital Expenditures

The Group's major capital expenditures were related to self-owned spas and machinery in our factories. There were HK$24.9 million additions to fixed assets in 2005 (2004: HK$14.2 million), of which included a property purchased in Guangzhou for HK$12.9 to expand the regional Training Centre for the southern China region.

Franchisees are responsible for the capital expenditures of their spas.

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

OUTLOOK

Natural Beauty's has been the leading professional beauty products & spa services provider in Greater China.

Looking ahead, we will continue to maintain our leading position in Taiwan spa market and we will continue to focus in the PRC, to capture this fast expanding market. We have defined plans for expansion and also plans to maximize our revenues and profitability.

Measures to improve same store sales:

- Revamp corporate and store image to attract new customers
- New package design to stimulate home-use products sales
- Introduction of various skin-care products and health supplements to enrich the product line.

Plan for expansion of franchise network:

- To increase 200 quality stores in 2006

New revenue sources:

- Training fee from courses provided to other interested parties including:
  - a) Training for Corporations like Sephora;
  - b) Training for individuals including 10 different licensed courses; and
  - c) CCTV-MTV summer training camp to target university & college students
- Management fee to be collected from new franchisees.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Audit Committee

The audit committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The audited financial statements of the Company for the year ended 31 December 2005 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 2005 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 2005, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

SHARE OPTION SCHEME
The Company has adopted share option scheme on 11 March 2002 (the "Scheme"). Details of the Scheme are set out in the published annual report of the Company for the year ended 31 December 2005. There were no outstanding options at the beginning and at the end of the period. No option were granted, exercised, cancelled or lapsed during the year ended 31 December 2005.

FINAL DIVIDEND
The Board has resolved to recommend the payment of a final dividend of HK$0.020 per share (2004: final dividend of HK$0.0175). Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on around 16 June 2006 to shareholders whose names appear on the register of members of the Company as at the close of business on 28 April 2006.

CLOSURE OF REGISTER OF MEMBERS
The register of members of the Company will be closed from 28 April 2006 to 2 May 2006, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 27 April 2006.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE
An annual report of the Company containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board
Dr. Tsai Yen Yu
Chairman

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

Hong Kong, 12 April 2006

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