自然美
natural beauty

Natural Beauty Bio-Technology Limited
自然美生物科技有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 00157)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS:

- Turnover decreased by 7.5% to HK$369.5 million.
- Profit before tax decreased by 73.3% to HK$39.2 million.
- Net profit decreased by 75.1% to HK$26.3 million.
- No final dividend was proposed for the year ended 31 December 2018 (2017: a final dividend of HK$0.0335 per share).

RESULTS

The board of directors (the "**Board**") of Natural Beauty Bio-Technology Limited ("**Natural Beauty**" or the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018, together with the comparative figures for 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018
(With comparatives for the year ended 31 December 2017)

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*3*	**369,525**	399,579
Cost of sales		**(146,665)**	(94,467)
Gross profit		**222,860**	305,112
Other income and other gains	*5*	**8,077**	12,879
Impairment losses, net of reversal	*6*	**2,267**	(3,457)
Distribution and selling expenses		**(120,200)**	(100,946)
Administrative expenses		**(69,982)**	(61,457)
Other expenses and other losses		**(3,865)**	(5,393)
Profit before tax		**39,157**	146,738
Income tax expense	*7*	**(12,898)**	(41,350)
Profit for the year	*8*	**26,259**	105,388
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		**3,372**	(1,126)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(32,421)**	52,379
Other comprehensive (expense) income for the year		**(29,049)**	51,253
Total comprehensive (expense) income for the year		**(2,790)**	156,641
Profit for the year attributable to:			
Owners of the Company		**26,259**	105,388
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(2,790)**	156,641
Earnings per share	*10*		
Basic		**HK1.3 cents**	HK5.3 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018
(With comparatives at 31 December 2017)

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investment properties		**7,674**	7,893
Property, plant and equipment		**197,207**	198,610
Prepaid lease payments		**48,530**	52,431
Goodwill		**31,407**	27,095
Intangible assets		**17,122**	–
Deposits for purchase of property, plant and equipment		**20,528**	–
Deferred tax assets		**5,234**	–
Pledged bank deposits		**3,479**	–
		331,181	286,029
Current assets			
Inventories		**74,313**	85,077
Trade and other receivables	*11*	**86,567**	109,289
Contract costs		**798**	–
Amounts due from related parties		**420**	–
Prepaid lease payments		**1,184**	1,249
Pledged bank deposits		**3,479**	7,338
Bank balances and cash		**181,024**	288,903
		347,785	491,856
Current liabilities			
Trade and other payables	*12*	**93,501**	91,282
Contract liabilities		**22,616**	–
Deferred income		**–**	5,981
Tax payable		**9,695**	18,389
		125,812	115,652
Net current assets		**221,973**	376,204
Total assets less current liabilities		**553,154**	662,233
Non-current liabilities			
Deferred tax liabilities		**–**	5,863
Retirement benefit obligations		**1,299**	5,624
Net assets		**551,855**	650,746
Capital and reserves			
Share capital		**200,210**	200,210
Reserves		**351,645**	450,536
Total equity		**551,855**	650,746

Notes:

1. GENERAL

Natural Beauty Bio-Technology Limited (the "**Company**") was incorporated in Cayman Islands on 29 June 2001 as an exempted company with limited liability and its shares have been listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 28 March 2002. Prior to 3 October 2018, the Company's parent and ultimate holding company are Standard Cosmos Limited and Next Focus Holding Limited, respectively, and both were incorporated in the British Virgin Islands. Since 3 October 2018 and as at 31 December 2018, Far Eastern Silo & Shipping (Panama) S.A, Insbro Holdings Limited and Standard Cosmos Limited are substantial corporate shareholders of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

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

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*
Amendments to HKAS 40	*Transfer of Investment Property*

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line item affected. Line items that were not affected by the changes have not been included.

	Notes	**31 December 2017 (Audited)**	**HKFRS 15**	**1 January 2018 (Restated)**
		HK$'000	*HK$'000*	*HK$'000*
Current Liabilities				
Trade and other payables	*(a)*	91,282	(4,151)	87,131
Contract liabilities	*(a)/(b)*	–	10,132	10,132
Deferred income	*(b)*	5,981	(5,981)	–

(a) As at 1 January 2018, advances from customers of HK$4,151,000 previously included in trade and other payables were reclassified to contract liabilities.

(b) At the date of initial application, included in the total deferred income, HK$5,981,000 related to the consideration received for skin treatments, beauty and spa services. The balance was reclassified to contract liabilities upon application of HKFRS 15.

3. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018 *HK$'000*
Types of goods or services	
Sales of goods	**348,728**
Service income	**20,797**
Total	**369,525**
Geographical markets	
The People's Republic of China (the "**PRC**")	**292,675**
Taiwan	**73,315**
Others	**3,535**
Total	**369,525**
Timing of revenue recognition	
A point in time	**348,728**
Over time	**20,797**
Total	**369,525**

(ii) ***Performance obligations for contracts with customers***

- Sale of products (revenue recognised at one point in time)

  The Group sells a range of products including skin care, beauty and aroma-therapeutic products, health supplements, make-up products and beauty apparatus directly to the franchisees.

  For sales of products to the franchisees, revenue is recognised when control of the goods has transferred to the franchisees, being at the point the goods are delivered to the franchisees. Following the delivery, the franchisees has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 120 days upon delivery.

- Sales of products with services (multiple performance obligations)

  The Group provides skin treatment, beauty and spa services through its self-owned spas and provides medical cosmetology services through its self-owned medical beauty clinics.

  The service is considered to be a distinct service as it is both regularly supplied by the Group to other customers on a stand-alone basis and is available for customers from other providers in the market. The Group has a present right to payment from the customers for the products with services. Transaction price is allocated between sales of products and the services on a relative standalone selling price basis. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released when services delivered to the customers.

(iii) ***Transaction price allocated to the remaining performance obligation for contracts with customers***

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Sales of products
	HK$'000
Within one year	**22,616**

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year is as follows:

	Year ended 31 December 2017
	HK$'000
Sales of goods	**393,872**
Service income	**5,707**
Total	**399,579**

4. OPERATING SEGMENTS

Information reported to the Chief Executive Officer ("**CEO**") of the Company, being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance focuses on geographical segments by location of customers.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. The PRC
2. Taiwan
3. Others (Hong Kong and Malaysia)

Segment revenues and results

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

For the year ended 31 December 2018

	The PRC	**Taiwan**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Revenue	**292,675**	**73,315**	**3,535**	**369,525**
Segment profit (loss)	**39,111**	**8,643**	**(67)**	**47,687**
Unallocated corporate expenses				**(11,550)**
Unallocated income				**3,020**
Profit before tax				**39,157**

For the year ended 31 December 2017

	The PRC	Taiwan	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	319,228	77,232	3,119	399,579
Segment profit (loss)	135,255	18,550	(688)	153,117
Unallocated corporate expenses				(10,704)
Unallocated income				4,325
Profit before tax				146,738

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of central administration costs, directors' salaries and interest income. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Other segment information

For the year ended 31 December 2018	**The PRC**	**Taiwan**	**Others**	**Segment and consolidated total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Amounts included in the measure of segment profit (loss):				
Depreciation of property, plant and equipment	**18,258**	**4,963**	**23**	**23,244**
Release of prepaid lease payments	**1,234**	**–**	**–**	**1,234**
Amortisation of intangible assets	**1,117**	**–**	**–**	**1,117**
Loss on disposal of property, plant and equipment	**815**	**155**	**–**	**970**
Allowance for obsolete inventories	**10,073**	**731**	**49**	**10,853**
Loss on disposal of inventories	**5,167**	**–**	**–**	**5,167**
(Reversal of allowance) allowance on trade receivables	**(2,170)**	**13**	**4**	**(2,153)**

For the year ended 31 December 2017	The PRC	Taiwan	Others	Segment and consolidated total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts included in the measure of segment profit (loss):				
Depreciation of property, plant and equipment	16,183	4,388	16	20,587
Release of prepaid lease payments	1,180	–	–	1,180
Loss on disposal of property, plant and equipment	191	–	–	191
Allowance (reversal of allowance) for obsolete inventories	1,751	46	(60)	1,737
Allowance on trade receivables	3,457	–	–	3,457

Geographical information

The Group is principally engaged in (a) manufacturing and sale of a range of products including skin care, beauty and aroma-therapeutic products, health supplements, make-up products and beauty apparatus and (b) provision of skin treatments, beauty and spa services, medical cosmetology services and skin care consulting and beauty training. The analysis of the Group's revenue by type of business for the year are set out in note 3 to the consolidated financial statements.

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

	2018	2017
	HK$'000	*HK$'000*
The PRC	**273,219**	234,300
Taiwan	**49,036**	51,701
Others	**213**	28
	322,468	286,029

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

The Group has a very wide customer base, no single customer contributed 10% or more to the Group's revenue for both 2018 and 2017.

5. OTHER INCOME AND OTHER GAINS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank deposits	**3,020**	4,325
Rental income from investment properties	**296**	206
Rental income from other properties and equipment	**1,958**	1,869
Government grants *(Note)*	**2,230**	4,187
Income resulting from expired franchisees deposit	**–**	1,594
Others	**573**	698
	8,077	12,879

Note: The government grants represent unconditional tax refunds received from the local government in compensation for taxes incurred and paid by the PRC operating subsidiaries of the Group.

6. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018	2017
	HK$'000	*HK$'000*
Impairment (reversed) losses recognised on:		
– Trade receivables – goods and services	**(2,153)**	3,457
– Other receivables	**(114)**	–
	(2,267)	3,457

7. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
The charge comprises:		
Taxation in the PRC		
Current year	**14,125**	23,171
Over provision in prior years	**(226)**	(1,383)
Withholding tax on dividends	**9,477**	6,178
	23,376	27,966
Taxation in Taiwan		
Current year	**2,199**	3,312
Under provision in prior years	**5**	13
Withholding tax on dividends	**3,308**	5,305
	5,512	8,630
Taxation in Hong Kong and other jurisdictions		
Current year	**538**	340
Over provision in prior years	**(135)**	(172)
	403	168
Deferred taxation		
Current year	**(16,393)**	4,586
	12,898	41,350

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. The statutory withholding income tax rate for non-PRC resident is 10%.

Pursuant to the relevant laws and regulations in the PRC and Taiwan, dividend withholding tax is imposed at a rate of 10% and 21% on dividends that are declared in respect of profits earned by PRC and Taiwan subsidiaries respectively and that are received by non-local resident entities. Withholding tax on dividends of approximately HK$9,477,000 (2017: HK$6,178,000) and HK$3,308,000 (2017: HK$5,305,000) for the PRC and Taiwan were recognised respectively.

Corporate Income Tax in Taiwan is charged at 20% and 17% in year 2018 and 2017, respectively.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

8. PROFIT FOR THE YEAR

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs:		
Directors' emoluments	**6,212**	5,520
Other staff salaries and allowances	**88,676**	79,690
Retirement benefits scheme contributions, excluding directors:		
– defined contribution plans	**16,927**	16,197
– defined benefit plan	**123**	116
Total staff costs	**111,938**	101,523
Depreciation of property, plant and equipment	**23,244**	20,587
Amortisation of intangible assets	**1,117**	–
Cost of inventories recognised as an expense	**116,227**	79,819
Release of prepaid lease payments	**1,234**	1,180
Amortisation of contract costs	**5,315**	–
Auditor's remuneration	**3,611**	3,367
Loss on disposal of property, plant and equipment	**970**	191
(Reversal of allowance) allowance for trade receivables	**(2,153)**	3,457
Allowance for obsolete inventories, included in cost of sales	**10,853**	1,737
Loss on disposal of inventories, included in cost of sales	**5,167**	–
Advertising and promotion expenses	**19,864**	13,510
Net exchange loss	**1,319**	3,713

9. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Interim dividend, paid – HK$0.0145 per share for 2018 (2017: HK$0.0171 per share for 2017)	**29,031**	34,236
Special interim dividend, paid – nil for 2018 (2017: HK$0.0054 per share for 2017)	**–**	10,811
Final dividend, paid – HK$0.0335 per share for 2017 (2017: HK$0.0327 per share for 2016)	**67,070**	65,469
Special final dividend, paid – nil for 2017 (2017: HK$0.025 per share for 2016)	**–**	50,052
	96,101	160,568

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31 December 2018 (2017: a final dividend of HK$0.0335 per share), amounting to nil (2017: HK$67,070,381) has been proposed by the directors.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit attributable to the owners of the Company of approximately HK$26,259,000 (2017: HK$105,388,000) and on the number of 2,002,100,932 (2017: 2,002,100,932) ordinary shares of the Company in issue during the year.

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

11. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**73,293**	103,240
Less: allowance for credit losses	**(2,363)**	(5,089)
	70,930	98,151
Prepayments	**12,134**	7,522
Other receivables	**3,503**	3,616
Total trade and other receivables	**86,567**	109,289

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on dates of delivery of goods.

	2018	2017
	HK$'000	*HK$'000*
Aging:		
Within credit period	**64,206**	78,503
Over credit period but less than 180 days	**2,258**	6,783
Over 180 days	**4,466**	12,865
	70,930	98,151

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$6,724,000 which are past due as at the reporting date. Out of the past due balances, HK$4,466,000 has been past due 180 days or more and is not considered as in default as the amount will be repaid by the customer based on the supplemental agreement signed with customers and historical experience. The Group considers both quantitative and qualitative information that is reasonable and supportable to have a more lagging default criterion as the Group remains a long-term relationship with customers. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$19,648,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group holds a collateral for a balance of HK$6,967,000.

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

	2017
	HK$'000
Aging:	
Over credit period but less than 180 days	6,783
Over 180 days	12,865
	19,648

The directors of the Company assessed the credit quality of those debtors that the balances are past due by reviewing their financial position, the past repayment record and the experience on any recent history of default. The amounts are considered recoverable.

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

Movement in the allowance for doubtful debts

	2017 *HK$'000*
Balance at the beginning of the year	1,476
Amounts recovered during the year	(589)
Allowance on receivables	4,046
Amounts written off as uncollectible	(115)
Exchange realignment	271
	5,089

As at 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$5,089,000, which have been identified with financial difficulties.

12. TRADE AND OTHER PAYABLES

	2018 ***HK$'000***	2017 *HK$'000*
Trade payables	**20,537**	21,521
Deposits from franchisees	**24,317**	25,934
Other tax payables	**14,229**	14,981
Accruals	**27,938**	21,483
Other payables	**6,480**	7,363
Total trade and other payables	**93,501**	91,282

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

	2018 ***HK$'000***	2017 *HK$'000*
Within 90 days	**18,843**	21,123
91 days to 365 days	**1,680**	18
Over 365 days	**14**	380
	20,537	21,521

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

Turnover of the Group in 2018 decreased by 7.5% to HK$369.5 million compared with HK$399.6 million in 2017. The decline was mainly due to a decrease of HK$45.1 million in product sales, such segment contributed to 94.4% of the Group's total turnover.

Turnover in the PRC market decreased by 8.3% from HK$319.2 million in 2017 to HK$292.7 million in 2018, turnover in the Taiwan market decreased by 5.1% to HK$73.3 million compared with HK$77.2 million in 2017.

Sales from other regions, including Hong Kong, Malaysia and Macau, increased by 13.3% from HK$3.1 million in 2017 to HK$3.5 million in 2018. Contribution from these regions remained at an insignificant level of just 1.0% of the Group's turnover.

The Group's overall gross profit margin decreased from 76.4% in 2017 to 60.3% in 2018 mainly due to the new beauty apparatus sold to franchisees in the third and fourth quarters, which changed the revenue mixture of the Group's product/beauty apparatus/service packages, and the offering of large promotional discounts on the new spa and medical cosmetology services in 2018.

Turnover by activities	**2018**		2017		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Products	**348,728**	**94.4%**	393,872	98.6%	(45,144)	(11.5%)
Services	**20,797**	**5.6%**	5,707	1.4%	15,090	264.4%
Total	**369,525**	**100.0%**	399,579	100.0%	(30,054)	(7.5%)

Products

The Group is principally engaged in manufacturing and sales of a range of products, including skin care, beauty and aroma-therapeutic products, health supplements and make-up products under the "Natural Beauty" brand and new beauty apparatus. Product sales are the Group's key revenue source and primarily come from franchised spas, self-owned-spas and concessionary counters at department stores. Product sales in 2018 amounted to HK$348.7 million, or 94.4% of the Group's total revenue, representing a decrease of HK$45.1 million or by 11.5% when compared with product sales of HK$393.9 million in 2017. The decrease in product sales was mainly driven by the decrease in turnover in such segment in the PRC market by 13.3% to HK$273.9 million in 2018 compared with HK$316.1 million in 2017, and the decrease in turnover in such segment in the Taiwan market by 4.6% to HK$71.3 million in 2018 compared with HK$74.7 million in 2017.

Services

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

The Group provides skin treatment, beauty and spa services through its self-owned spas. The Group's strategy is to establish self-owned spas as model outlets in strategic locations to stimulate franchisees to join in. Currently the Group has two self-owned spas and two self-owned medical cosmetology centers in the PRC and three self-owned spas in Taiwan.

The Group does not share any service income generated from spas run by franchisees under its current franchise arrangements. In 2018, service income increased by 264.4% to HK$20.8 million compared with HK$5.7 million in 2017. The increase in service income was mainly driven by the increase in turnover of spa services and medical cosmetology service income by 366.0% to HK$19.5 million compared with HK$4.2 million in 2017.

Service income	**2018**		2017		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Training income	**423**	**2.0%**	471	8.2%	(48)	(10.2%)
Spa/Medical cosmetology service income	**19,536**	**94.0%**	4,192	73.5%	15,344	366.0%
Others	**838**	**4.0%**	1,044	18.3%	(206)	(19.7%)
Total	**20,797**	**100.0%**	5,707	100.0%	15,090	264.4%

Turnover by geographical region	**2018**	2017	Changes	
	HK$'000	*HK$'000*	*HK$'000*	*%*
PRC				
Products	**273,940**	316,085	(42,145)	(13.3%)
Services	**18,735**	3,143	15,592	496.1%
PRC Total	**292,675**	319,228	(26,553)	(8.3%)
Taiwan				
Products	**71,253**	74,668	(3,415)	(4.6%)
Services	**2,062**	2,564	(502)	(19.6%)
Taiwan Total	**73,315**	77,232	(3,917)	(5.1%)
Others				
Products	**3,535**	3,119	416	13.3%
Services	**–**	–	–	–
Others Total	**3,535**	3,119	416	13.3%

The PRC Market

The Group's turnover in the PRC market decreased by 8.3% in 2018 to HK$292.7 million compared with HK$319.2 million in 2017. The decrease was mainly due to decline in the sales of products. Gross margin on product sales decreased from 80.0% in 2017 to 64.2% in 2018. The key reasons are the changes in the mixture of products with different marginal gross profit and the revenue mixture of the Group's product/beauty apparatus/service package, and the offering of large promotional discounts on the new spa and medical cosmetology services in PRC in 2018.

The Taiwan Market

The Group's turnover in the Taiwan market decreased by 5.1% from HK$77.2 million in 2017 to HK$73.3 million in 2018 due to the decline in the sales of products. Gross profit margin on product sales in 2018 was 77.6%, which was in line with that in 2017.

Other income and other gains

Other income and other gains decreased by 37.3% from HK$12.9 million in 2017 to HK$8.1 million in 2018, mainly due to the decrease of interest income and financial refunds in 2018 by 30.2% and 46.7% respectively compared with 2017. Other income and other gains mainly comprised interest income, rental income from investment properties, financial refunds of HK$3.0 million, HK$2.3 million and HK$2.2 million respectively in 2018.

Selling and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover increased to 32.5% in 2018 compared with 25.3% in 2017. The distribution and selling expenses increased by HK$19.3 million from HK$100.9 million in 2017 to HK$120.2 million in 2018. Salaries increased by HK$7.8 million from HK$41.6 million in 2017 to HK$49.4 million in 2018. Other key expenses included new products/business launching events and customers' training session expenses of HK$12.7 million, advertising expenses of HK$7.8 million, depreciation charges of HK$3.8 million, transportation charges of HK$5.7 million as well as rentals of offices of HK$8.9 million in 2018.

Total administrative expenses increased by HK$8.5 million, or 13.9%, to HK$70.0 million in 2018 compared with HK$61.5 million in 2017. Administrative expenses mainly comprised staff costs and retirement benefits of HK$20.1 million, legal and professional fees of HK$11.8 million, depreciation charges of HK$9.0 million and office and utilities expenses of HK$4.8 million in 2018.

Other expenses and other losses

Other expenses and other losses decreased by HK$1.5 million, from HK$5.4 million in 2017 to HK$3.9 million in 2018. Other expenses and other losses mainly included exchange loss of HK$1.3 million, loss of HK$0.97 million on disposal of property and related expenses of rental property of HK$1.6 million in 2018.

Profit before tax

Taking into account the decrease in gross profit and other income, and the increase in selling and administrative expenses, profit before tax decreased by 73.3% from HK$146.7 million in 2017 to HK$39.2 million in 2018, and the pre-tax profit margin decreased to 10.6% in 2018 from 36.7% in 2017.

Taxation

Taxation expenses decreased by HK$28.5 million to HK$12.9 million in 2018 compared with HK$41.4 million in 2017. The effective tax rates of the Group in 2017 and 2018 were 28.2% and 32.9% respectively.

Profit for the year

Profit for the year decreased by 75.1% from HK$105.4 million in 2017 to HK$26.3 million in 2018.

Liquidity and financial resources

Cash generated from operating activities in 2018 was approximately HK$76.7 million (HK$21.2 million in 2017). As at 31 December 2018, the Group had bank balances and cash of approximately HK$181.0 million (HK$288.9 million as at 31 December 2017) with no external bank borrowing.

In terms of gearing, as at 31 December 2017 and 31 December 2018, the Group's gearing ratios were zero (defined as net debt divided by shareholders' equity) as the Group was in a net cash position on both year-end dates. Current ratios of the Group (defined as current assets divided by current liabilities) as at 31 December 2017 and 31 December 2018 were 4.3 times and 2.8 times respectively. As at 31 December 2018, the Group had no material contingent liabilities, other than those disclosed in its financial statements and the notes thereto. With the cash and bank balances in hand, the Group's liquidity position remains strong to meet its working capital requirements.

Treasury policies and exposure to fluctuations in exchange rates

Most of the Group's revenues are denominated in Renminbi ("**RMB**") and New Taiwan Dollars ("**NTD**") as its operations are mainly located in the PRC and Taiwan. As at 31 December 2018, approximately 72.4% (79.0% as at 31 December 2017) of the Group's bank balances and cash was denominated in RMB, while approximately 21.5% (16.9% as at 31 December 2017) in NTD. The remaining 6.1% (4.1% as at 31 December 2017) was denominated in US Dollars, Hong Kong Dollars and Malaysian Ringgit. The Group continues to adopt a conservative approach in its foreign exchange exposure management. The Group reviews its foreign exchange risks periodically and uses derivative financial instruments to hedge against such risks when necessary.

BUSINESS REVIEW

Distribution channels

Store Number by Ownership	Franchisee-owned Spa	Self-owned Spa	Total Spa	Entrusted Counter	Self-owned Counter	Total Counter	Self-owned Medical Cosmetology Center	Total
As at 31 December 2018								
PRC	**773**	**2**	**775**	**0**	**14**	**14**	**2**	**791**
Taiwan	**241**	**3**	**244**	**0**	**0**	**0**	**0**	**244**
Others	**27**	**0**	**27**	**0**	**0**	**0**	**0**	**27**
Total	**1,041**	**5**	**1,046**	**0**	**14**	**14**	**2**	**1,062**

Store Number by Ownership	Franchisee-owned Spa	Self-owned Spa	Total Spa	Entrusted Counter	Self-owned Counter	Total Counter	Total
As at 31 December 2017							
PRC	796	2	798	0	14	14	812
Taiwan	246	3	249	0	0	0	249
Others	30	0	30	0	0	0	30
Total	1,072	5	1,077	0	14	14	1,091

Average sales per store	**2018 Average store***	2017 Average store*	**2018 Average sales per store**	2017 Average sales per store	Changes	
			HK$	*HK$*	*HK$*	%
PRC	**801.5**	806.0	**365,000**	396,000	(31,000)	(7.8%)
Taiwan	**246.5**	250.5	**297,000**	308,000	(11,000)	(3.6%)
Group total**	**1,048.0**	1,056.5	**349,000**	375,000	(26,000)	(6.9%)

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

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

The Group derives its income principally from its network of distribution channels, including spas and concessionary counters in department stores. As at 31 December 2018, there were 1,046 spas, 2 medical cosmetology centers and 14 concessionary counters. Of these, 1,041 were franchised spas, while 5 spas, 2 medical cosmetology centers and 14 concessionary counters were directly operated by the Group. No concessionary counters were entrusted to third-party operators. Franchised spas are owned by the franchisees who are responsible for the capital investment in these spas. They are obliged to use only Natural Beauty or "NB" products in their spas. A wide array of services including hydrotherapy, facial treatment, body care and skin care analysis, are provided in all spas, while skin care analysis is widely available at the concessionary counters in department stores.

Group-wide, a total of 42 new stores and 2 medical cosmetology centers were opened and 73 stores were closed during the year ended 31 December 2018. Average sales per store decreased from HK$375,000 in 2017 to HK$349,000 in 2018.

Research and Development

The Group puts significant emphasis on research and development which allows it to maintain its competitive edge, to continuously improve the quality of its existing products and develop new products. The Group has been collaborating with overseas skin-care companies on technological development. The bio-technology materials the Group uses for its NB products are imported from Europe, Japan and Australia. The Group's research and development team comprises a number of overseas consultants with experience and expertise in cosmetics, medicine, pharmacy and bio-chemistry. NB products are constantly enhanced and modified by the application of new ingredients developed by the team. The Group draws on its collaboration of experts with different expertise and experiences, together with Dr. TSAI Yen-Yu's 40-year-plus industry experience and knowledge to continue to create high-quality beauty and skin care products. NB principally uses natural ingredients to manufacture products and adopts special formulae to cater to the specific needs of women with delicate skin. NB products accommodate the natural metabolism of skin with long-lasting effects.

Natural Beauty has collaborated with a leading researcher in the field of human genome and stem cell technology for the development of an anti-aging NB-1 product family and other products for spot removal, whitening, allergy-resistance and slimming. The stem cell technology is patented in the United States to protect the uniqueness of the NB-1 products.

Products

In 2018, the Group's flagship NB-1 products accounted for 46.9% of total product sales and its sales reached HK$163.7 million in 2018. During 2018, the Group had successfully launched a new series of NB-1 Bright-Crystal target products, the sales of which achieved HK$43.5 million in PRC, accounting for 12.5% of total product sales.

Through continuous research and strategic planning for the beauty market, the Group has successfully launched the new beauty apparatus for the franchisees, thereby enhancing the status of the Group in the beauty and spa market. In 2018, sales of new beauty apparatus achieved HK$37.5 million, accounting for 10.7% of total product sales.

Human Resources

As at 31 December 2018, the Group had a total of 511 employees, of whom 400 were based in the PRC, 109 in Taiwan and 2 in other countries and regions. Total remuneration (excluding directors' emoluments) in 2018 was approximately HK$105.7 million (HK$96.0 million in 2017), including retirement benefit related costs of HK$17.1 million (HK$16.3 million in 2017). Competitive remuneration packages are maintained to attract, retain and motivate capable staff members and are reviewed on a regular basis.

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

Capital Expenditures

The Group's capital expenditure of HK$51.8 million in 2018 was mainly related to the new plant construction in the PRC amounting to HK$35.5 million, opening of new stores, renovation and equipment amounting to HK$7.0 million, office and self-owned spa centre renovation amounting to HK$6.4 million, motor vehicles amounting to HK$1.1 million, production equipment amounting to HK$0.2 million, IT infrastructure amounting to HK$0.5 million.

OUTLOOK

As a new addition to the EMI Group in Taiwan, a leading group of enterprises specialized in media, virtual retail, real estate, and entertainment content production in Taiwan, we are now able to leverage the resources of the EMI Group to boost up our core beauty and skincare business and to develop new business covering bio-tech beauty/medical cosmetology, e-commerce and to-customer businesses. For instance, with the resources of Eastern Housing and ETToday News Cloud, we can further promote online-to-offline integrated marketing; while Eastern TV Shopping's product development and marketing resources can be combined with our R&D resources. With additional resources and greater talent pool available from the EMI Group, our Directors believe that the Group is well-positioned to reach another significant milestone in 2019.

Scale up strategies:

– Accelerate the opening of new stores in the identified cities. Opening new direct-sale stores in department stores/shopping malls with high footfall can reinforce the brand's premium image and boost up revenue from direct-sale stores rapidly.

– Speed up the increase of the number of franchisees in tier 3 and 4 cities.

– Build the "Natural Beauty bio-tech-based industrial park" in Fengxian District of Shanghai. The park is under construction and is expected to be completed in mid 2020. It will incorporate bio-tech lab, production base, Research and Development ("**R&D**") center, logistics center, warehouse and office, which will bring our bio-tech expertise, manufacturing ability and production capacity to the next level to support the rapid expansion of our business.

Scale out strategies:

– Develop new product lines for e-commerce business to build brand awareness among young consumers via on-line as well as off-line channels outside our franchisee stores.

– Team up with industry leader to advance in the medical cosmetology market. A partnership with top player of the medical cosmetology market will enable the Group to build expertise in medical cosmetology and deploy the offline model in 2019.

– Expand our R&D team and engage the EMI Group's business partners specialized in developing high-quality food supplements to diversify our product offerings for consumers.

– Bring Strawberrynet, the cross-border e-commerce platform newly acquired by the EMI Group, and an internationally famous brand name to our customers in our website stores with a view to increasing our revenue and diversifying our business.

Branding Strategies:

– Engage a top artist or celebrity as our brand spokesperson to endorse the brand, along with a comprehensive marketing plan with a view to creating a wider brand awareness and stimulating growth in the number of new consumers.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Accordingly, the Board has established the audit committee, the executive committee, the remuneration committee and the nomination committee with defined terms of reference which are of no less exacting terms than those set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. These committees (saved for the executive committee) are chaired by non-executive Directors.

Audit Committee and Review of Annual Financial Statements

The audit committee has adopted terms of reference (Audit Committee Charter) which are in line with the code provisions of the CG Code. The audited consolidated financial statements of the Company for the year ended 31 December 2018 have been reviewed by the audit committee which is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made. The audit committee is authorised by the Board to investigate any activity within its terms of reference and to obtain outside legal or other independent professional advice.

Remuneration Committee

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

Nomination Committee

The nomination committee has adopted terms of reference (Nomination Committee Charter) which are in line with the code provisions of the CG Code. The nomination committee is responsible for, including but not limited to, determining the policy for the nomination of Directors, reviewing the structure, size, composition and diversity of the Board annually and making recommendations to the Board on selection of candidates for directorships pursuant to the Board Diversity Policy and Director Nomination Policy of the Company. It also assesses the independence of independent non-executive Directors. The nomination committee has performed corporate governance functions set out in code provision D.3.1 of the CG Code for the year ended 31 December 2018.

Executive Committee

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

Compliance with the CG Code

The Company recognises the importance of good corporate governance in enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has fully complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2018, except for the following deviation:

Code provision E.1.2

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

Dr. TSAI Yen-Yu, the then Chairperson of the Board, Mr. CHEN Ruey-Long, the Chairman of the audit committee, Mr. LU Chi-Chant, the Chairman of the remuneration committee, Mr. LEE Ming-Ta, the then Chairman of the executive committee and Mr. HSIEH Pang-Chang, the then Chairman of the nomination committee were unable to attend the Company's annual general meeting held on 24 May 2018 ("**2018 AGM**") due to other overseas commitments. The Board had arranged for Dr. SU Chien-Cheng, a then executive Director and a member of the remuneration committee and executive committee of the Company, who is well versed in all business activities and operations of the Group, to attend and chair the 2018 AGM on behalf of Dr. TSAI Yen-Yu and to respond to shareholders' questions.

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

Compliance with the Model Code

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry with all Directors, all Directors have confirmed that the required standards of the Model Code have been complied with throughout the year ended 31 December 2018 and up to the date of this announcement.

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

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FINAL DIVIDEND

The Board of the Company does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: final dividend of HK$0.0335 per share).

2019 ANNUAL GENERAL MEETING ("2019 AGM")

The 2019 AGM of the Company will be held on Thursday, 23 May 2019. The Company will despatch a circular containing, among other matters, further information relating to the 2019 AGM to shareholders of the Company as soon as practicable.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of shareholders who are entitled to attend and vote at the 2019 AGM, the Register of Members of the Company will be closed from Friday, 17 May 2019 to Thursday, 23 May 2019, both days inclusive. In order to be eligible for attending and voting at the 2019 AGM, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 16 May 2019.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S AND THE COMPANY'S WEBSITE

This annual results announcement is also published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.ir-cloud.com/hongkong/00157/irwebsite). The Annual Report for the year ended 31 December 2018 of the Company containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders and will be published on the website of the Company and that of the Stock Exchange in due course.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By order of the Board
Natural Beauty Bio-Technology Limited
LEI Chien
Chairperson

Hong Kong, 20 March 2019

As at the date of this announcement, the Board comprises Dr. Lei Chien and Mr. Pan Yi-Fan Ivan as executive directors; Mr. Hsiao Wen-Chung, Ms. Lu Yu-Min, Ms. Lin Shu-Hua and Mr. Chen Shou-Huang as non-executive directors; and Mr. Chen Ruey-Long, Mr. Lu Chi-Chant and Mr. Yang Shih-Chien as independent non-executive directors.