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自然美
natural beauty

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

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

HIGHLIGHTS:

- Net Profit Surged 33.4% to HK$238.6 Million
- China Market Continued to Drive Revenue and Profit Growth
- Final Dividend of HK$0.0335 per share

RESULTS

The directors of Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Company") are pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008, together with the comparative figures for 2007, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	4	**592,701**	450,147
Cost of sales		**(86,102)**	(77,573)
Gross profit		**506,599**	372,574
Other income	6	**58,222**	32,461
Distribution and selling expenses		**(127,587)**	(117,937)
Administrative expenses		**(112,731)**	(74,536)
Other expenses		**(16,026)**	(4,247)
Share of loss of an associate		**–**	(373)
Share of profit of a jointly controlled entity		**–**	87
Profit before taxation		**308,477**	208,029
Income tax expense	7	**(69,898)**	(29,248)
Profit for the year	8	**238,579**	178,781
Attributable to:			
Equity holders of the Company		**238,477**	178,707
Minority interests		**102**	74
		238,579	178,781
Dividends	9	**300,032**	185,000
Earnings per share	10		
Basic		**HK 11.9 cents**	HK 8.9 cents

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Investment properties		**4,486**	4,544
Property, plant and equipment		**230,569**	218,025
Prepaid lease payments		**9,809**	9,516
Goodwill		**25,766**	24,562
Available-for-sale investments		**5,926**	9,126
Deferred taxation assets		**9,156**	7,550
		285,712	273,323
Current assets			
Inventories		**100,859**	71,017
Trade and other receivables	*11*	**92,744**	98,971
Prepaid lease payments		**278**	262
Pledged bank deposit		**428**	–
Bank balances and cash		**546,205**	588,741
		740,514	758,991
Current liabilities			
Trade and other payables	*12*	**105,979**	90,308
Deferred income		**10,374**	9,763
Taxation payable		**41,207**	4,693
		157,560	104,764
Net current assets		**582,954**	654,227
Total assets less current liabilities		**868,666**	927,550
Non-current liability			
Retirement benefit obligations		**12,259**	11,899
		856,407	915,651
Capital and reserves			
Share capital		**200,064**	200,000
Reserves		**649,896**	709,626
Equity attributable to equity holders of the Company		**849,960**	909,626
Minority interests		**6,447**	6,025
Total equity		**856,407**	915,651

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 the British Virgin Islands.

2. BASIS OF PREPARATION

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

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

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfer of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods ending on or after 30 June 2009
[5] Effective for annual periods beginning on or after 1 July 2008
[6] Effective for annual periods beginning on or after 1 October 2008
[7] Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

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

4. REVENUE

Revenue represents (i) the net amount received and receivables for goods sold by the Group to outside customers which 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:

	2008	2007
	HK$'000	*HK$'000*
Sales of goods	**575,491**	430,416
Service income	**16,693**	16,914
Entrustment fee income	**517**	2,817
	592,701	450,147

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Geographical segments

The Group's operations are located in the People's Republic of China ("PRC"), Taiwan, Hong Kong, Malaysia and Macau.

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

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
For the year ended 31 December 2008				
Revenue	**436,516**	**146,782**	**9,403**	**592,701**
Segment results	**255,201**	**74,907**	**(10,542)**	**319,566**
Unallocated corporate expenses				**(30,982)**
Unallocated income				**19,893**
Profit before taxation				**308,477**
Income tax expense				**(69,898)**
Profit for the year				**238,579**

Consolidated balance sheet

	PRC *HK$'000*	Taiwan *HK$'000*	Others *HK$'000*	Total *HK$'000*
Assets				
Segment assets	**315,898**	**140,542**	**9,626**	**466,066**
Unallocated corporate assets				**560,160**
Consolidated total assets				**1,026,226**
Liabilities				
Segment liabilities	**51,373**	**47,794**	**1,921**	**101,088**
Unallocated corporate liabilities				**68,731**
Consolidated total liabilities				**169,819**
Other information				
Capital expenditure	**18,280**	**15,017**	**2,130**	**35,427**
Depreciation of property, plant and equipment	**10,321**	**4,702**	**2,108**	**17,131**
Release of prepaid lease payments	**275**	**–**	**–**	**275**
Loss (gain) on disposal of property, plant and equipment	**3,100**	**(17,953)**	**154**	**(14,699)**
(Write back of) allowance for obsolete inventories	**(1,501)**	**(82)**	**88**	**(1,495)**
Impairment loss on trade receivables	**13,963**	**1,280**	**–**	**15,243**
Increase in fair value of investment properties	**–**	**15**	**–**	**15**

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

Consolidated balance sheet

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

Business segments

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

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

	Revenue		**Other income**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cosmetic products and beauty services	**592,701**	450,147	**–**	–
Investment properties	**–**	–	**195**	4,942
Others	**–**	–	**58,027**	27,519
	592,701	450,147	**58,222**	32,461

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 included:

	Carrying amount of segment assets		**Capital expenditure**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cosmetic products and beauty services	**461,580**	428,495	**35,427**	53,778
Investment properties	**4,486**	4,544	**–**	–
	466,066	433,039	**35,427**	53,778

6. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Interest on bank deposits	**6,583**	6,754
Rental income from investment properties	**180**	3,693
Rental income from other properties and equipment	**4,745**	3,839
Financial refunds *(note)*	**2,170**	9,659
Increase in fair value of investment properties	**15**	50
Foreign exchange gain	**25,371**	–
Gain on held-for-trading investments	**2,617**	4,102
Gain on disposal of an associate	**–**	1,024
Gain on disposal of property, plant and equipment	**14,699**	858
Gain on disposal of investment properties	**–**	1,199
Write back of obsolete inventories	**1,495**	1
Others	**347**	1,282
	58,222	32,461

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

7. INCOME TAX EXPENSE

	2008	2007
	HK$'000	*HK$'000*
The charge comprises:		
Taxation in PRC and Taiwan		
Current year	**37,667**	26,772
Underprovision in prior years	**1,537**	233
	39,204	27,005
Deferred tax		
Current year	**(1,566)**	1,625
Attributable to a change in tax rate	**–**	618
	(1,566)	2,243
Dividend withholding tax	**32,260**	–
	69,898	29,248

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 27% or 33% to 25% from 1 January 2008 onwards. The relevant tax rate for the Group's subsidiaries in the PRC is 25% (2007: 27% or 33%).

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Holiday"). The Tax Holiday will continue on the implementation of the New Law using the new tax rate of 25%.

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

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

8. PROFIT FOR THE YEAR

	2008 *HK$'000*	2007 *HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Staff costs:		
– directors' emoluments	**14,325**	1,560
– other staff costs	**86,684**	71,476
	101,009	73,036
Retirement benefits scheme contributions, excluding directors:		
– defined contribution plans	**9,509**	7,062
– defined benefit plan	**866**	870
	10,375	7,932
Share based payments		
– equity-settled share based payments	**245**	101
Total staff costs	**111,629**	81,069
Depreciation of property, plant and equipment	**17,131**	17,522
Release of prepaid lease payments	**275**	252
Auditors' remuneration	**3,435**	3,508
Gain on disposal of property, plant and equipment	**(14,699)**	(858)
Research and development costs	**1,714**	1,693
Write back of obsolete inventories	**(1,495)**	(1)
Cost of inventories recognised as an expense	**86,102**	77,573
Net exchange (gain) loss	**(25,371)**	180
Impairment losses on trade receivables	**15,243**	2,185
Impairment losses on available-for-sale investments	**3,200**	–

9. DIVIDENDS

	2008 *HK$'000*	2007 *HK$'000*
Dividends recognised as distribution during the year:		
Interim dividend, paid – HK$0.050 per share (2007: HK$0.030 per share)	**100,032**	60,000
Interim special dividend, paid – Nil per share (2007: HK$0.020 per share)	**–**	40,000
Final dividend, paid – HK$0.042 per share for 2007 (2007: HK$0.030 per share for 2006)	**84,000**	60,000
Final special dividend, paid – HK$0.058 per share for 2007 (2007: HK$0.0125 per share for 2006)	**116,000**	25,000
	300,032	185,000

The final dividend of HK$0.0335 per share (2007: HK$0.0420 per share for 2007), amounting to approximately HK$67,021,000 have been proposed by the directors and is subject to approval by the shareholders in general meeting.

No final special dividend (2007: HK$0.0580 per share for 2007) has been proposed by the directors after the balance sheet date.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company is based on the profit attributable to the equity holders of the Company of approximately HK$238,477,000 (2007: HK$178,707,000) and on the weighted average number of 2,000,310,980 (2007: 2,000,000,000) ordinary shares of the Company in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for both years.

11. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**68,265**	61,118
Less: allowance for doubtful debts	**(2,963)**	(1,767)
	65,302	59,351
Prepayments and deposits	**16,713**	14,064
Financial refunds receivable	**–**	9,834
Other receivables	**10,729**	15,722
Total trade and other receivables	**92,744**	98,971

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 (net of allowance for doubtful debts) at the balance sheet date:

	2008	2007
	HK$'000	*HK$'000*
Within 180 days	**57,892**	44,874
181 days to 365 days	**3,828**	5,096
1 to 2 years	**3,246**	7,391
Over 2 years	**336**	1,990
	65,302	59,351

12. TRADE AND OTHER PAYABLES

	2008	2007
	HK$'000	*HK$'000*
Trade payables	**14,035**	21,813
Deposits from customers	**25,730**	25,389
Other tax payables	**9,998**	12,743
Other payables	**56,216**	30,363
Total trade and other payables	**105,979**	90,308

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

	2008	2007
	HK$'000	*HK$'000*
Within 180 days	**13,814**	21,795
181 days to 365 days	**199**	–
1 to 2 years	**22**	2
Over 2 years	**–**	16
	14,035	21,813

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover by geographical region	**2008**		2007		Changes	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
PRC	**436,516**	**73.6%**	316,808	70.4%	119,708	37.8%
Taiwan	**146,782**	**24.8%**	126,837	28.2%	19,945	15.7%
Others	**9,403**	**1.6%**	6,502	1.4%	2,901	44.6%
Total	**592,701**	**100.0%**	450,147	100.0%	142,554	31.7%

Turnover surged 31.7% to HK$592.7 million in 2008 as compared with HK$450.1 million in the previous year. The PRC market continued to deliver robust sales growth at 37.8%. Meanwhile, the Taiwan market recorded a 15.7% year-on-year growth in turnover. The growth was attributable to the significant recovery of the core spa product business. For other markets, including Hong Kong, Macau and Malaysia, sales increased by 44.6%, but the amount remained insignificant and accounted for only 1.6% of total turnover.

Turnover in the PRC climbed 37.8% or HK$119.7 million to HK$436.5 million in 2008. The increase in turnover generated from the PRC market was mainly due to an encouraging increase of HK$121.1 million in product sales, representing a year-on-year growth of 39.4%. The increase in product sales resulted from enhanced training on selling skills and product knowledge for our franchisees. The average store sales of the PRC market recorded a further growth of 30.2% in 2008. At the same time, service income increased by 13.6% to HK$7.8 million in 2008.

In Taiwan, turnover went up by 15.7% or HK$19.9 million to HK$146.8 million in 2008 as compared with HK$126.8 million in 2007. There were product sales of HK$11.3 million directly attributable to the retail brand products of Fonperi. Average store sales (excluding the retail products which use different sales channel) in respect to Taiwan's existing spa channel registered a 30.4% year-on-year growth.

Other regions include Hong Kong, Macau and Malaysia. Sale in other regions increased by 44.6% to HK$9.4 million, thanks to higher sales in Malaysia and the opening of the new concept store in Venetian-Hotel-Resort in Macau during the year. These regions remained insignificant and accounted for less than 2% of total turnover.

The Group's overall gross profit margin increased from 82.8% in 2007 to 85.5% in 2008.

By activities	**2008**	2007	Changes	
	HK$'000	*HK$'000*	*HK$'000*	*%*
Product Sales				
PRC	**428,237**	307,161	121,076	39.4%
Taiwan	**138,770**	118,130	20,640	17.5%
Others	**8,484**	5,125	3,359	65.5%
Total	**575,491**	430,416	145,075	33.7%
Service				
PRC	**7,762**	6,830	932	13.6%
Taiwan	**8,012**	8,707	(695)	-8.0%
Others	**919**	1,377	(458)	-33.3%
Total	**16,693**	16,914	(221)	-1.3%
Entrustment				
PRC	**517**	2,817	(2,300)	-81.6%
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**517**	2,817	(2,300)	-81.6%

Turnover by activities	**2008**		2007		Changes	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Products	**575,491**	**97.1%**	430,416	95.6%	145,075	33.7%
Services	**16,693**	**2.8%**	16,914	3.8%	(221)	-1.3%
Entrustment	**517**	**0.1%**	2,817	0.6%	(2,300)	-81.6%
Total	**592,701**	**100.0%**	450,147	100.0%	142,554	31.7%

Products

The Group is principally engaged in the manufacture and sale of several types of products, namely skin care products, beauty products, aromatherapeutic products, color make up and heath supplements, under the "Natural Beauty" and "Fonperi" brand names. Product sales are the Group's key revenue contributor and are primarily made through franchise spas, self-owned spas and retail outlets. In 2008, products sales amounted to HK$575.5 million, or 97.1% of total revenue, compared with HK$430.4 million, or 95.6% in 2007. Gross margin of product sales for the year further improved by 2.3 percentage points, from 87.2% in 2007 compared with 89.5% in 2008.

The surge in products sales was mainly attributable to the HK$121.1 million and HK$20.6 million increase in sales generated from the PRC market and Taiwan market respectively. Starting from 2008, the Group further enhanced product offering by introducing products for "family and friends of our existing customers". The Group has also launched 109 new products, including 29 for health supplements. Besides, the Group provided free intensive training sessions to the franchisees in order to improve both the service quality and selling skills, which in turn stimulated product sales. The Taiwan market also recovered from the declining trend of the past two years and recorded HK$138.8 million in sales of products in 2008, an encouraging growth of 17.5% from HK$118.1 million in 2007. If the retail sales of Fonperi were excluded, our spa products registered a 24.1% growth in the year under review.

Our retail brand "Fonperi" launched in April 2007 recorded HK$11.3 million in sales during 2008, when compared with HK$15.4 million in 2007.

Other markets such as Hong Kong, Macau and Malaysia only accounted for 1.5% of total product sales for the year.

Service income	**2008**		2007		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Training income	**1,672**	**10.0%**	1,332	7.9%	340	25.5%
SPA service income	**12,942**	**77.5%**	13,356	79.0%	(414)	-3.1%
Management fee income	**327**	**2.0%**	1,314	7.8%	(987)	-75.1%
Others	**1,752**	**10.5%**	912	5.3%	840	92.1%
Total	**16,693**	**100.0%**	16,914	100.0%	(221)	-1.3%

Services

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

The Group provides skin treatment, beauty and spa services through our self-owned spas. Service income is generated only from our self-owned spas as the Group does not share any service income generated in franchised spas with franchisees under the current franchise arrangement. Service income generated from franchised spas is vital for them to cover their operating expenses such as rental, salary and utilities. During 2008, income from services decreased slightly by 1.3% to HK$16.7 million when compared with 2007.

It is necessary to establish self-owned stores as model spas in new markets, and the Group considers this a more profitable and cost-efficient way as a whole to allocate resources to stimulate overall product sales.

On the other hand, SPA service income from self-owned stores decreased slightly by 3.1% to HK$12.9 million, mainly due to the closure a self-owned spa in Taiwan.

Entrustment

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

In 2008, entrustment income recorded a further decrease of 81.6% to HK$0.5 million when compared with HK$2.8 million in 2007. The drop in entrustment income was because certain entrustment arrangements expired by the end of 2007. There was only one entrusted spa as at 31 December 2008.

Other income

Other income mainly comprised interest on bank deposits, foreign exchange gain, financial refunds, gain on disposal of property, plant and equipments and gain on held-for-trading investments, which was HK$6.6 million, HK$25.4 million, HK$2.2 million, HK$14.7 million and HK$2.6 million respectively and others for the remaining balance. Other income increased by 79.4%, or HK$25.8 million from HK$32.5 million in 2007 to HK$58.2 million in 2008. During the year, there was the foreign exchange gain from the dividend received from a PRC subsidiary amounting to HK$16.8 million and the gain on disposal of the building in Taiwan amounting to HK$17.7 million. However, the increase was partly offset by a drop amounting to HK$7.5 million in financial refunds in the PRC and decrease in rental income by HK$3.5 million as we have sold one of our investment properties in Taiwan during 2007.

Distribution and administrative expenses

The Group's distribution and selling expenses as a percentage to turnover decreased from 26.2% in 2007 to 21.5% in 2008. Total expenses in dollar terms increased by HK$9.7 million, from HK$117.9 million in 2007 to HK$127.6 million in 2008. During the year under review, the Group has reduced the focus on media exposure and introduced products offering through "family and friends of our existing customers". Instead of media advertising, free samples and gifts were given to our existing customers to promote them to their friends and family members. In percentage terms, advertising and promotion expenses represent 9.5% of total turnover in 2008, when compared with 13.2% in the previous year. Other key expenses mainly included salary, commission, travel expenses and rental expenses, amounted to HK$22.2 million, HK$5.2 million, HK$4.6 million and HK$14.1 million respectively.

Administrative expenses as a percentage to turnover increased from 16.6% in 2007 to 19.0% during 2008. The cost mainly covered salary, legal and professional fee, depreciation and rental charges. Total administrative expenses in dollar terms increased from HK$74.5 million in 2007 to HK$112.7 million in 2008. The increase was mainly due to the professional cost incurred in privatization and group restructuring projects, amounting to HK$9.3 million and HK$0.9 million. Also, HK$15.2 million of long outstanding receivables have been written off during 2008.

Other expenses

In 2008, other expenses increased by HK$11.8 million to HK$16.0 million, compared with HK$4.2 million last year. Other expenses mainly included donations totaling HK$3.9 million, impairment loss on available-for-sale investments amounted to HK$3.2 million and bank charges of HK$2.9 million. The Group made donations immediately after the Sichuan earthquake in May 2008, which measured 8.0 on the Richter scale.

Profit before taxation

The increase in gross profit and other income, netting the increase in distribution and selling expenses, administrative expenses and other expenses contributed to the surge of 48.3% in profit before tax, from HK$208.0 million in 2007 to HK$308.5 million in 2008.

Taxation

Taxation expenses increased 139.0% from HK$29.2 million in 2007 to HK$69.9 million in 2008. The effective tax rate of the Group for the year 2007 and 2008 was 14.1% and 22.7% respectively. The increase in taxation expenses and effective tax rate was mainly due to the withholding tax amounted to HK$32.3 million has been paid or accrued for the dividend declared in Taiwan and PRC subsidiaries during 2008.

Net profit for the year

As a result, the net income for the year rose 33.4% from HK$178.8 million in 2007 to HK$238.6 million in 2008.

Liquidity and financial resources

Cash generated from operating activities in 2008 was approximately HK$269.3 million (2007: HK$274.2 million). The increase was primarily due to the changes in working capital. As at 31 December 2008, the Group had bank balances and cash of approximately HK$546.2 million (as at 31 December 2007: HK$588.7 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2007 and 31 December 2008, the Group's gearing ratio was zero (defined as net debt divided by shareholders' equity) as the Group was in 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 2007 and 31 December 2008 were 7.2 times and 4.7 times respectively. The relatively low current ratio at 31 December 2008 was due to accrual of withholding tax amounted to HK$25.6 million for the dividend to be received from PRC subsidiaries, which will be payable in 2009. As at 31 December 2008, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and bank balances in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and working capital requirements.

Charges on assets

As at 31 December 2008, the Group has a pledge of bank deposit of HK$428,000 (2007: Nil) for ensuring one of its wholly-owned subsidiary complies with the terms set in a Tenancy Agreement entered into with the landlord in order to obtain a right of using a self-owned store in Macau.

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of the revenue denominated in Renminbi and New Taiwan Dollar from the PRC and Taiwan as our operations are mainly in these two geographical areas. As at 31 December 2008, approximately 56.7% (as at 31 December 2007: 44.9%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 10.1% (as at 31 December 2007: 33.6%) was denominated in New Taiwan Dollar and the remaining 33.2% (as at 31 December 2007: 21.5%) was denominated in US Dollars, Hong Kong Dollars, Macau Pataca 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 risk when necessary.

Business Review

By geographic region	**2008**	2007	Changes	
	HK$'000	*HK$'000*	*HK$'000*	*%*
PRC				
Product sales	**428,237**	307,161	121,076	39.4%
Service	**7,762**	6,830	932	13.6%
Entrustment	**517**	2,817	(2,300)	-81.6%
PRC Total	**436,516**	316,808	119,708	37.8%
Taiwan				
Product sales	**138,770**	118,130	20,640	17.5%
Service	**8,012**	8,707	(695)	-8.0%
Entrustment	**–**	–	–	n/a
Taiwan Total	**146,782**	126,837	19,945	15.7%
Others				
Product sales	**8,484**	5,125	3,359	65.5%
Service	**919**	1,377	(458)	-33.3%
Entrustment	**–**	–	–	n/a
Others Total	**9,403**	6,502	2,901	44.6%

PRC Market

The Group continues to maintain our leading position in the PRC market despite intense market competition. In 2008, the encouraging growth in product sales resulted from strengthening of service quality and selling skills in relation to franchised stores. The improvement was attributable to video conferencing facilities in 13 locations across the PRC and headquarter training. Product sales in the PRC rose 39.4% to reach HK$428.2 million.

The Group had raised the selling price of most of the products in the first half of 2008 amid the inflation pressure in China. Hence, the Group's overall gross profit in the PRC market increased by HK$117.7 million and the product gross margin surged by 3 percentage points from 87.7% in 2007 to 90.7% in 2008.

Operating profit increased by 46.6% to HK$255.2 million from HK$174.0 million in 2007. Overall net margin also grew by 4.3 percentage points, from 49.9% in 2007 to 54.2% in 2008.

Taiwan Market

During 2008, product sales in Taiwan market also improved by 17.5% to HK$138.8 million as compared with HK$118.1 million in 2007.

Operating profit in Taiwan market increased by 67.5% to HK$74.9 million from HK$44.7 million in 2007. There was encouraging improvement in both operating margin and net margin. Overall operating margin increased by 15.7 percentage points to 51.0% in 2008, from 35.3% in last year, and overall net margin also increased from 33.0% in 2007 to 41.7% in 2008, representing a surge of 8.7 percentage points.

Distribution channels

Store Number by Ownership As at 31 December 2008	**Franchisee-owned Spa**	**Entrusted Spa**	**Self-owned Spa**	**Total Spa**	**Entrusted Counter**	**Self-owned Counter**	**Total Counter**	**Group Total**	**Retail Channel**	**Grand Total**
Taiwan	438	–	9	447	–	–	–	447	3,628	4,075
PRC	1,446	1	7	1,454	14	42	56	1,510	–	1,510
Others	53	–	2	55	–	–	–	55	–	55
Total	1,937	1	18	1,956	14	42	56	2,012	3,628	5,640

Store Number by Ownership As at 31 December 2008	**Franchisee-owned**	**Entrusted**	**Self-owned**	**Retail Channel**	**Total**
Taiwan	438	–	9	3,628	4,075
PRC	1,446	15	49	–	1,510
Others	53	–	2	–	55
Total	1,937	15	60	3,628	5,640

Average sales per store

	2008 Average store*	2007 Average store*	**2008 Average sales per store** *HK$*	2007 Average sales per store *HK$*	Changes *HK$*	%
PRC	**1,487.5**	1,407.0	**293,000**	225,000	68,000	30.2%
Taiwan***	**452.0**	483.5	**300,000**	230,000	70,000	30.4%
Group total**	**1,939.5**	1,890.5	**295,000**	227,000	68,000	30.0%

* *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.*

*** *Taiwan sales figure excluded retail sales of "Fonperi" brand products which are sold by different distribution channel.*

The Group principally derives income through our unique distribution channels, namely spas and counters in department stores. As at 31 December 2008, there were 1,956 spas and 56 counters. All spas provide a variety of services, including hydrotherapy, facial treatment, body care and skin care analysis to its customers, whereas counters in department stores usually provide skin care analysis.

As at 31 December 2008, there were a total of 1,937 franchisee spas, and 18 spas and 42 counters directly operated by the Group. There were also 1 spa and 14 counters being entrusted to reputable operators.

A total of 198 new stores were opened and 161 stores were closed during the year under review.

The average sales per store in the PRC increased by 30.2%, from HK$225,000 in 2007 to HK$293,000 in 2008. In Taiwan, average sales per store also improved by 30.4%, from HK$230,000 in 2007 to HK$300,000 in 2008.

Our objective is to encourage franchisees to open bigger spas, so as to improve average store sales by adding more service spaces.

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

Retail Business

Since the launch of Fonperi products, the retail outlets in Taiwan has increased from 1,394 as at 31 December 2007 to 3,628 points of sales as at 31 December 2008, including Watsons, Carrefour, Geant, RT-Mart, Wellcome, FamilyMart and others.

Research and Development

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

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

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

The total research and development costs remain steady at HK$1.7 million in both 2007 and 2008.

New Products

After the successful launch of our flagship product, anti-aging NB-1 series in late 2003, we launched NB-1 Whitening series, NB-1 anti-allergy and NB-1 pore refining series. In 2008, over 271,000 sets / bottles (2007: 176,000 sets / bottles) of NB-1 family products were sold with a turnover of HK$200.2 million (2007: HK$134.5 million), accounting for more than one-third of total product sales during the year under review.

We also targeted our health food and supplement products as one of the growth drivers in 2008, which turnover grew 186% from HK$16.6 million in 2007 to HK$47.4 million in current year.

We also launched a retail brand “Fonperi” in Taiwan in April 2007, Fonperi products are sold via retail channels like hypermarkets and drugstores, including 6 key accounts, namely Watsons, Carrefour, Geant, RT-Mart, Wellcome and FamilyMart, as well as 10 wholesalers. There were 3,628 retails points of sales selling “Fonperi” products in Taiwan. Up to 31 December 2008, over 205,000 units were sold, generating a turnover of HK$11.3 million.

During 2008, the Group continued to enrich the product range and launched 109 new products, including 12 new products of “Fonperi” and 29 new health supplement products.

Information Technology

The Group starts to implement ERP system by Oracle to link 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 system in Taiwan was completed in 2004. There were three logistic centers in the PRC operated by the Group. The Warehouse Management System (WMS) is now linked to Oracle ERP system.

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

Human Resources

As at 31 December 2008, the Group had a total of 1,029 employees, of whom 809 were based in PRC, 195 in Taiwan and 25 in other areas. Total remuneration (excluding directors’ emoluments) for the year ended 31 December 2008 was appropriately HK$97.3 million (2007: HK$79.5 million), including retirement benefits cost of HK$10.4 million (2007: HK$7.9 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a regular basis.

The Group maintains good relations with our employee and is committed to offering them training. Professional training courses are offered to beauticians employed by the Group and our 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, with a view to providing incentives and reward to eligible participants who contributed to the success of the Group’s operations. The Directors may, at their discretion, invite any employee or director of the Group or any qualified person as set out in the scheme, to subscribe for shares. On 16 July 2008, the Group granted options to certain employees to subscribe a maximum of 2,213,456 shares, subject to achieving certain performance targets. The stock options could be vested at a ratio of 50%, 30% and 20% for a three-year period. There were 1,336,354 options forfeited as certain performance targets were not achieved based on the audited results of respective subsidiaries of the Group for the year ended 31 December 2008. As an additional employee incentive, the Company will pay the relevant option holder a cash bonus in the amount of the total exercise price payable for the exercise of the options. The option holders are required to use any such cash bonus towards payment of the exercise price of the relevant options and HK$1,125,397 of cash bonus had been paid and used directly for exercising those options for 639,430 share issued. On 7 July 2008, there were 639,430 ordinary shares of the Company allotted and issued in connection with the exercise of vested portion of employee stock options granted in the previous year.

The Directors also strengthened its professional management team by recruiting new staff members to fill in some key management positions like head of sales and head of marketing from multinational companies for the PRC and Taiwan markets. The Board believes that the addition of more industry experts will be beneficial to the Group's expansion and long-term development in future.

Capital Expenditures

The Group's major capital expenditures were related to self-owned spas and machinery in our factories. There were HK$35.4 million additions to fixed assets in 2008 (2007: HK$53.8 million), comprising renovation cost and the cost incurred as a result of additional furniture and fixtures for our new Taiwan office, as well as our newly opened self-owned spas in Beijing and Macau, which amounted to HK$14.2 million, HK$3.9 million and HK$2 million respectively.

Franchisees are responsible for the capital expenditures of their spas.

Outlook

China

Amidst a weakening global economy, the Group still believes that the growth in PRC is far more rapid than in any other major economies. PRC market remains the Group's strategic focus in the foreseeable future. With the strengthening of sales skill training and product knowledge of the franchisees, together with new products introduced and further expansion of the franchise network, overall sales and average sales per store are targeted to improve further. Also, the Group had acquired a related company which principally engaged in the research, development and manufacture of health supplements during the year. Through this acquisition, the Group can further strengthen its position in expanding health supplements business and improving its overall competitive edge.

Taiwan

In spite of the high expectations for the newly elected Taiwan President, Taiwan's economy has not turned around during 2008. Under the worldwide economic crisis, general economy and retail market are expected to remain weak, but we will focus more on our core business of franchising spa products to outperform the economy in general.

For both markets, new products, especially health supplements, will be introduced to reach extended family and friends of our existing clients.

CORPORATE GOVERNANCE

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

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

Audit Committee

The audit committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The financial statements of the Company for the year ended 31 December 2008 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

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 met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules for the year ended 31 December 2008, except for the following deviation:

Code provision E.1.2

There were one Annual General Meeting ("AGM") and two Extraordinary General Meetings ("EGMs") held since the issue of last annual report.

This code provision stipulates that the chairman of the board and chairman of audit committee of a listed issuer should attend the issuer's AGM and EGM. Dr. Tsai Yen Yu, the Chairperson of the Company, has been heavily committed to business operations of the Group in the Mainland China and Taiwan. Despite her utmost intention to be present at the Company's 2008 annual general meeting held on 12 June 2008, business circumstances made it impossible. However, although she was unable to attend, she had duly arranged for Dr. Su Chien Cheng, an executive director of the Company who is well versed in all the business activities and operations of the Group, to attend on her behalf and to chair the meeting and to respond to shareholders' questions. Dr. Su Chien Cheng also attended the EGM held on 16 October 2008 on behalf of the board to answer questions from the shareholders. Mr. Chen Ching, an Independent Non-Executive Director, attended and chaired the EGM held on 16 February 2009. Dr. Su Chien Cheng also attended the meeting.

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 2008, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$0.0335 per share (2007: final dividend of HK$0.0420 per share and a final special dividend of HK$0.0580 per share). Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on around 3 July 2009 to shareholders whose names appear on the register of members of the Company as at the close of business on 26 May 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 May 2009 to 29 May 2009, both dates inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the proposed 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 Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 26 May 2009.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

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

By order of the Board
Dr. Tsai Yen Yu
Chairman

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

Hong Kong, 15 April 2009