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)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

## RESULTS

The directors of Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010, together with the comparative figures for 2009, as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*FOR THE SIX MONTHS ENDED 30 JUNE 2010*
*(With comparatives for the six months ended 30 June 2009)*
*(Expressed in thousands of Hong Kong dollars (HK$'000))*

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | | **(unaudited)** | (unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *4* | **229,605** | 255,329 |
| Cost of sales | | **(70,195)** | (46,672) |
| Gross profit | | **159,410** | 208,657 |
| Other income | | **10,453** | 19,221 |
| Distribution and selling expenses | | **(67,831)** | (56,966) |
| Administrative expenses | | **(64,313)** | (48,901) |
| Other expenses | | **(1,146)** | (3,133) |
| Profit before taxation | | **36,573** | 118,878 |
| Income tax expense | *5* | **(20,729)** | (10,007) |
| Profit for the period | *6* | **15,844** | 108,871 |
| Other comprehensive income | | | |
| Exchange differences arising on translation | | **5,800** | 2,576 |
| Total comprehensive income for the period | | **21,644** | 111,447 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **15,900** | 108,958 |
| Minority interests | | **(56)** | (87) |
| | | **15,844** | 108,871 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **21,693** | 111,529 |
| Minority interests | | **(49)** | (82) |
| | | **21,644** | 111,447 |
| Dividends – proposed | *7* | **70,074** | 70,055 |
| Earnings per share | *8* | | |
| – Basic and diluted | | **0.79 HK cents** | 5.45 HK cents |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*AT 30 JUNE 2010*
*(with comparatives at 31 December 2009)*
*(Expressed in thousands of Hong Kong dollars (HK$'000))*

| | Notes | At 30 June 2010 (unaudited) HK$'000 | At 31 December 2009 (audited) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **4,754** | 4,710 |
| Property, plant and equipment | | **211,262** | 217,760 |
| Prepaid lease payments | | **9,497** | 9,562 |
| Goodwill | | **26,004** | 25,833 |
| Available-for-sale investments | | **3,926** | 3,926 |
| Deferred taxation assets | | **2,643** | 3,016 |
| | | **258,086** | 264,807 |
| **Current assets** | | | |
| Inventories | | **63,917** | 89,076 |
| Trade and other receivables | *9* | **68,673** | 85,382 |
| Prepaid lease payments | | **281** | 278 |
| Pledged bank deposit | | **432** | 430 |
| Bank balances and cash | | **531,945** | 559,346 |
| | | **665,248** | 734,512 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **79,820** | 93,836 |
| Deferred income | | **10,200** | 10,290 |
| Taxation payable | | **10,614** | 14,490 |
| | | **100,634** | 118,616 |
| **Net current assets** | | **564,614** | 615,896 |
| **Total assets less current liabilities** | | **822,700** | 880,703 |
| **Non-current liability** | | | |
| Retirement benefit obligations | | **12,312** | 11,875 |
| | | **810,388** | 868,828 |
| **Capital and reserves** | | | |
| Share capital | | **200,210** | 200,210 |
| Reserves | | **609,481** | 667,872 |
| **Equity attributable to owners of the Company** | | **809,691** | 868,082 |
| **Minority interests** | | **697** | 746 |
| **Total equity** | | **810,388** | 868,828 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*AS OF 30 JUNE 2010*

*(With comparatives for the six months ended 30 June 2009 and as of 31 December 2009)*

*(Expressed in thousands of Hong Kong dollars (HK$'000) unless otherwise stated)*

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at their fair values. The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2009, except as described below.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2010.

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 included in Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK (IFRIC) - Int 17 | Distributions of Non-cash Assets to Owners |

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the condensed consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The adoption of improvements to HKAS 17 had no material effect on the Group's condensed consolidated financial statements for the current or prior accounting period.

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendment) | Classification of Rights Issues[2] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 9 | Financial Instruments[5] |
| HK (IFRIC) - Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK (IFRIC) - Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 January 2013.

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 financial position of the Group.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions as appropriate in the preparation of the accounts. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include the productive life of property, plant and equipment, impairment of goodwill, allowances for trade receivable and inventories and the determination of income tax.

## 3. SEGMENT INFORMATION

The accounting policies of the operating segments are the same as the Group's accounting policies in the preparation of the Group's annual financial statements. The performance assessment of the Group is measured based on segment profit that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

The Group's operating profits were recorded in geographical segments by location of customers.

**Segment revenues and results**

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

An analysis of the Group's revenue and results by reportable segment based on customers' location is presented below:

| | **For the six months ended 30 June 2010** | | | |
|---|---|---|---|---|
| | **PRC** | **Taiwan** | **Others** | **Total** |
| | **(unaudited)** | **(unaudited)** | **(unaudited)** | **(unaudited)** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Revenue | **167,730** | **57,230** | **4,645** | **229,605** |
| Segment profit (loss) | **58,352** | **(5,917)** | **(8,988)** | **43,447** |
| Unallocated corporate expenses | | | | **(7,950)** |
| Unallocated income | | | | **1,076** |
| Profit before taxation | | | | **36,573** |
| Income tax expense | | | | **(20,729)** |
| Profit for the period | | | | **15,844** |

| | For the six months ended 30 June 2009 | | | |
|---|---|---|---|---|
| | PRC | Taiwan | Others | Total |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 191,042 | 59,706 | 4,581 | 255,329 |
| Segment profit (loss) | 112,966 | 15,115 | (5,093) | 122,988 |
| Unallocated corporate expenses | | | | (7,347) |
| Unallocated income | | | | 3,237 |
| Profit before taxation | | | | 118,878 |
| Income tax expense | | | | (10,007) |
| Profit for the period | | | | 108,871 |

## 4. REVENUE

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Sales of goods | **224,889** | 248,607 |
| Service income | **4,673** | 6,566 |
| Entrustment fee income | **43** | 156 |
| | **229,605** | 255,329 |

## 5. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided, as the Group has no assessable profits in Hong Kong for the six months ended 30 June 2010 (2009: Nil).

Taxation in overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries/places in which the Group operates.

| | For the six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Group: | | |
| Overseas taxation | **20,356** | 6,254 |
| Deferred taxation | **373** | 3,753 |
| Taxation for the period | **20,729** | 10,007 |

## 6. PROFIT FOR THE PERIOD

Profit for the period in the condensed consolidated statement of comprehensive income was determined after crediting and charging the following items:

| | For the six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Crediting: | | |
| Interest income on bank deposits | **1,076** | 1,473 |
| Gain on held-for-trading investments | **–** | 12 |
| Charging: | | |
| Net loss (gain) on disposals of property, plant and equipment | **1,044** | (3,114) |
| Net exchange loss (gain) | **339** | (1,740) |
| Staff costs, excluding directors' emoluments | | |
| – Salaries and wages | **54,873** | 46,537 |
| – Pension costs | | |
| – PRC | **5,137** | 4,715 |
| – Taiwan | **1,411** | 1,191 |
| – Hong Kong and other regions | **114** | 101 |
| Directors' emoluments (salaries and allowances)* | **1,967** | 403 |
| Depreciation of property, plant and equipment | **10,350** | 9,675 |
| Allowance for obsolete inventories | **24,937** | 1,112 |
| Provision for doubtful debts | **5,922** | 1,101 |
| Operating lease expense on land and buildings | **14,801** | 14,175 |
| Research and development costs | **677** | 1,696 |

* *Included in directors' remuneration were fees of HK$1,586,000 (2009: HK$44,000), paid or payable to directors during the report period.*

## 7. DIVIDENDS

The directors proposed an interim dividend of 3.5 HK cents per share (2009: interim dividend of 3.5 HK cents per share). This proposed dividend has not been recognised as a liability at the balance sheet date.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's unaudited profit attributable to owners of the Company of approximately HK$15,900,000 for the six months ended 30 June 2010 (2009: HK$108,958,000) divided by weighted average number of approximately 2,002,100,932 ordinary shares (2009: 2,000,639,430) in issue during the period.

The computation of diluted earnings per share does not take into accounts the outstanding share options because the exercise price of these options was higher than the average market price of shares' for both six months ended 30 June 2009 and 2010.

## 9. TRADE AND OTHER RECEIVABLES

| | At 30 June 2010 (unaudited) *HK$'000* | At 31 December 2009 (audited) *HK$'000* |
|---|---|---|
| Trade receivables | **44,039** | 62,088 |
| *Less:* allowance for doubtful debts | **(8,443)** | (2,688) |
| | **35,596** | 59,400 |
| Prepayments and deposits | **14,102** | 11,263 |
| Other receivables | **18,975** | 14,719 |
| Total trade and other receivables | **68,673** | 85,382 |

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) presented based on the invoice date at the end of the reporting period:

| | At 30 June 2010 (unaudited) *HK$'000* | At 31 December 2009 (audited) *HK$'000* |
|---|---|---|
| Within 180 days | **33,025** | 50,875 |
| 181 days to 365 days | **2,515** | 4,670 |
| 1 to 2 years | **56** | 3,580 |
| Over 2 years | **–** | 275 |
| | **35,596** | 59,400 |

The fair value of the Group's trade and other receivables at 30 June 2010 was approximate to the corresponding carrying amount.

## 10. TRADE AND OTHER PAYABLES

| | At 30 June 2010 (unaudited) *HK$'000* | At 31 December 2009 (audited) *HK$'000* |
|---|---|---|
| Trade payables | **9,904** | 12,079 |
| Deposits from customers | **18,621** | 22,894 |
| Other tax payables | **2,527** | 8,917 |
| Other payables | **48,768** | 49,946 |
| Total trade and other payables | **79,820** | 93,836 |

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

| | At 30 June 2010 (unaudited) *HK$'000* | At 31 December 2009 (audited) *HK$'000* |
|---|---|---|
| Within 180 days | **9,882** | 10,587 |
| 181 days to 365 days | **22** | 1,492 |
| | **9,904** | 12,079 |

The average credit period on purchases of goods is 90 days. The fair value of the Group's trade and other payables at 30 June 2010 was approximate to the corresponding amount.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

| **Turnover by geographical region** | **1H2010** *HK$'000* | **%** | 1H2009 *HK$'000* | % | **Changes** *HK$'000* | % |
|---|---|---|---|---|---|---|
| PRC | **167,730** | **73.1%** | 191,042 | 74.8% | (23,312) | -12.2% |
| Taiwan | **57,230** | **24.9%** | 59,706 | 23.4% | (2,476) | -4.1% |
| Others | **4,645** | **2.0%** | 4,581 | 1.8% | 64 | 1.4% |
| **Total** | **229,605** | **100.0%** | 255,329 | 100.0% | (25,724) | -10.1% |

During the six months ended 30 June 2010, turnover of the Group dropped 10.1% to HK$229.6 million as compared with HK$255.3 million recorded for the six month ended 30 June 2009, due to a change of trade inventory strategy where we focus more on sell-through (i.e. to the end consumers) instead of sell-in (i.e. to our franchisees). In addition, as the new franchise incentive scheme announced in June which will be launched in July 2010, most of the franchisees will defer the purchase into the next season thus deferring their order of goods for the six months ended 30 June 2010.

Turnover in the PRC market decreased by 12.2% from HK$191.0 million to HK$167.7 million for the six month ended 30 June 2010. The decrease in turnover was mainly due to a reduction of HK$22.0 million in product sales. Meanwhile, service income declined by 1.2 million from HK$2.6 million for the six months ended 30 June 2009 to HK$1.4 million for the corresponding period of 2010 as a result of closure of one of our self-owned spas during the period under review. In Taiwan, turnover dropped 4.1% to reach HK$57.2 million for the six months ended 30 June 2010 as compared with HK$59.7 million for the same period in 2009. There was also one self-owned spa in Taiwan closed during the period under review. Affected customers were transferred to independent franchisees.

Sales in other regions such as Hong Kong, Macau and Malaysia increased slightly by 1.4% to HK$4.6 million. The turnover contribution from these regions remained insignificant and accounted for 2% of total turnover.

The Group's overall gross profit margin decreased from 81.7% for the six months ended 30 June 2009 to 69.4% for the same period in 2010. During the period, the Group decided to discontinue some product lines and shift their focus to more profitable core products. As a result, non-cash provision for slow moving and obsolete inventory were charged to the cost of sales. If the non-cash provision for slow moving and obsolete inventory of HK$24.9 million were excluded, the overall gross profit margin would be approximately 80%.

| **Turnover by activities** | **1H2010** | 1H2009 | **Changes** | |
|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *%* |
| **Products** | | | | |
| PRC | **166,288** | 188,321 | (22,033) | -11.7% |
| Taiwan | **54,355** | 56,093 | (1,738) | -3.1% |
| Others | **4,246** | 4,193 | 53 | 1.3% |
| **Total** | **224,889** | 248,607 | (23,718) | -9.5% |
| **Services** | | | | |
| PRC | **1,399** | 2,565 | (1,166) | -45.5% |
| Taiwan | **2,875** | 3,613 | (738) | -20.4% |
| Others | **399** | 388 | 11 | 2.8% |
| **Total** | **4,673** | 6,566 | (1,893) | -28.8% |
| **Entrustment** | | | | |
| PRC | **43** | 156 | (113) | -72.4% |
| Taiwan | **–** | – | – | n/a |
| Others | **–** | – | – | n/a |
| **Total** | **43** | 156 | (113) | -72.4% |

| **Turnover by activities** | **1H2010** | | 1H2009 | | **Changes** | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***%*** | *HK$'000* | *%* | *HK$'000* | *%* |
| Products | **224,889** | **97.9%** | 248,607 | 97.4% | (23,718) | -9.5% |
| Services | **4,673** | **2.1%** | 6,566 | 2.5% | (1,893) | -28.8% |
| Entrustment | **43** | **0.0%** | 156 | 0.1% | (113) | -72.4% |
| **Total** | **229,605** | **100.0%** | 255,329 | 100.0% | (25,724) | -10.1% |

**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 health supplements, under the "Natural Beauty" brand name. Product sales is the Group's key revenue contributor and is primarily made through franchise spas, self-owned spas and counters in department stores. Products sales for the six months ended 30 June 2010 amounted to HK$224.9 million, or 97.9% of total revenue, representing a decrease of HK$23.7 million when compared with the amount of HK$248.6 million, which accounted for 97.4% of total revenue for the same period in 2009. The decrease in product sales was mainly due to change of trade inventory strategy and the launch of new franchisee incentive scheme in July 2010 which deferred the order of goods before the end of the review period. Gross margin of product sales for the year decreased from 87.5% for the six months ended 30 June 2009 to 74.4% for the corresponding period in 2010. The decrease of product gross margin was due to the non-cash provision for slow moving and obsolete inventory amounting to HK$24.9 million, which has been charged to the cost of sales.

Other markets such as Hong Kong, Macau and Malaysia only accounted for 1.9% of total product sales for the period.

| **Service income** | **1H2010** | | 1H2009 | | **Changes** | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | **%** | *HK$'000* | % | *HK$'000* | % |
| Training income | **370** | **7.9%** | 694 | 10.6% | (324) | -46.7% |
| SPA service income | **3,740** | **80.0%** | 4,848 | 73.8% | (1,108) | -22.9% |
| Management fee income | **–** | **0.0%** | 26 | 0.4% | (26) | -100.0% |
| Others | **563** | **12.1%** | 998 | 15.2% | (435) | -43.6% |
| **Total** | **4,673** | **100.0%** | 6,566 | 100.0% | (1,893) | -28.8% |

**Services**

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

The Group provides skin treatment, beauty and spa services through its self-owned spas. It is necessary to establish self-owned stores as model spas in new markets as the Group considers it as a more profitable and cost-efficient way on the whole to allocate resources to stimulate overall product sales.

Service income is generated solely from our self-owned spas as the Group does not share any service income generated from 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 the period under review, service income decreased by 28.8% to HK$4.7 million when compared with HK$6.6 million for the same period in 2009. The decrease was mainly due to the shrinkage in SPA service income by approximately HK$1.1 million which resulted from the closure of two self-owned spa during the period under review.

**Entrustment**

Entrusted spas, which were previously operated by the Group, are owned by the Group and operated by reputable operators. In order to have a more efficient allocation of financial and human resources, the Group put entrustment arrangements in place in the PRC and its self-owned spas were entrusted to local reputable operators. The operators are responsible for selling the Group's products in their stores and they bear all the profits and losses of the operations, while the Group receives a fixed annual entrustment fee from the operators until the Group's initial investment is repaid in five years' time. By then, the entrusted spas will become regular franchised spas.

During the six months ended 30 June 2010, entrustment income recorded a further decrease of 72.4% to HK$43,000 when compared with HK$156,000 for the corresponding period of 2009. The drop in entrustment income was attributable to the expiration of remaining entrustment arrangements in 2010. There was no entrusted spa as at 30 June 2010.

**Other income**

Other income mainly comprised rental income of other properties, interest income and financial refunds, which amounted to HK$1.5 million, HK$1.1 million, HK$8.0 million and the remaining balance respectively. Other income decreased by 45.6%, or HK$8.7 million, from HK$19.2 million for the six months ended 30 June 2009 to HK$10.5 million for the same period in 2010. The decrease was mainly due to the one-off disposal gain of buildings in Guangzhou and Ningbo of HK$3.3 million and the one-off income received from the promotion activities for the six months ended 30 June 2009.

**Distribution and administrative expenses**

The Group's distribution and selling expenses as a percentage of turnover increased significantly to 29.5% for the six month ended 30 June 2010 compared with 22.3% for the last corresponding period. Total expenses in dollar terms increased by HK$10.8 million from HK$57.0 million for the six months ended 30 June 2009 to HK$67.8 million for the same period of 2010. During the period under review, we arranged a cruise event for approximately 1,000 of our franchisees and staff, together with over 70 media reporters and partners for a 6-day-5-night tour on a chartered cruise to Japan and Korea, at which we launched our new concept store, new products and made the announcement of a new incentive scheme effective July 2010. This one-off marketing event recorded HK$10.8 million expenses during the period under review. Thus, advertising and promotion expenses as a percentage of total turnover was 12.6% for the six months ended 30 June 2010, when compared with 6.9% for the same period in 2009. Other key expenses mainly included salary, commission, travel and transportation expenses as well as rental expenses, which amounted to HK$11.6 million, HK$1.1 million, HK$3.2 million and HK$10.0 million respectively.

Total administrative expenses in dollar terms increased by HK$15.4 million to HK$64.3 million for the six months ended 30 June 2010. Administrative expenses as a percentage of turnover increased from 19.2% for the six months ended 30 June 2009 to 28.0% for the corresponding period in 2010. The increase in amount and percentage was attributable to the provision for doubtful debt amounted to HK$5.9 million and the additional salary paid to the new management team (including but not limited to chief executive officer, chief operating officer and chief financial officer and vice president of franchise network who have been on board since January/February 2010). The administrative cost mainly covered staff costs and retirement benefits, legal and professional fee, traveling expenses, depreciation and rental charges which amounted to HK$31.4 million, HK$5.0 million, HK$3.1 million, HK$4.4 million and HK$6.7 million respectively.

**Other expenses**

Other expenses decreased from HK$3.1 million for the six months ended 30 June 2009 to HK$1.1 million for the same period in 2010, representing a decrease of HK$2.0 million or 63.4%. Other expenses mainly included the loss on disposal of fixed assets due to the closure of spas which amounted to HK$1.0 million.

**Profit before taxation**

A decrease in gross profit and other income, and an increase of administrative expenses, distribution and selling expenses netting a decrease of other expenses, contributed to the decline of 69.2% in profit before tax from HK$118.9 million for the six months ended June 2009 to HK$36.6 million for the six months ended 30 June 2010.

**Taxation**

Taxation expenses increased 107.1% from HK$10.0 million for the six months ended 30 June 2009 to HK$20.7 million for the same period in 2010. The effective tax rates of the Group for the six months ended 30 June 2009 and 2010 were 8.4% and 56.7% respectively. The increase in taxation expenses and effective tax rates were due to the payment of under-provided profits tax in 2009 amounting to HK$5.1 million during the six months ended 30 June 2010, while there was tax refund of HK$2.6 million recorded for the same period in last year.

**Profit for the period**

As a result, profit for the period declined by 85.4% from HK$108.9 million for the six months ended 30 June 2009 to HK$15.8 million for the six months ended 30 June 2010.

**Liquidity and financial resources**

Cash generated from operating activities for the six months ended 30 June 2010 was approximately HK$51.0 million (for the six months ended 2009: HK$46.6 million). The increase was primarily due to changes in working capital. As at 30 June 2010, the Group had bank balances and cash of approximately HK$531.9 million (as at 31 December 2009: HK$559.3 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2009 and 30 June 2010, the Group's gearing ratios were zero (defined as net debt divided by shareholders' equity) as the Group was in net cash balance as at both year/period end dates. Current ratios of the Group (defined as current assets divided by current liabilities) as at 31 December 2009 and 30 June 2010 were 6.2 times and 6.5 times respectively. As at 30 June 2010, 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 to meet working capital requirements.

**Charges on assets**

As at 30 June 2010, the Group had a pledge of bank deposit of HK$430,000 (as at 31 December 2009: HK$430,000) in order to ensure that one of its wholly owned subsidiaries complied with the terms stipulated in the Tenancy Agreement which had been entered into with the landlord so as to obtain a right of use of a self-owned store in Macau.

**Treasury policies and exposure to fluctuations in exchange rates**

The Group derives most of its revenue denominated in Renminbi and New Taiwan Dollars from the PRC and Taiwan as our operations are mainly located in these two areas. As at 30 June 2010, approximately 58.7% (as at 31 December 2009: 46.7%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 10.5% (as at 31 December 2009: 6.8%) in New Taiwan Dollars. The remaining 30.8% (as at 31 December 2009: 46.5%) was denominated in US Dollar, Hong Kong Dollars, Macau Pataca and Malaysia Ringgits. The Group continued to adopt a conservative approach in terms of foreign exchange exposure management. Review of the Group's exposure to foreign exchange risk will be conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

## BUSINESS REVIEW

| Turnover by geographic region | 1H2010 | 1H2009 | Changes | |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | % |
| **PRC** | | | | |
| Products | **166,288** | 188,321 | (22,033) | -11.7% |
| Services | **1,399** | 2,565 | (1,166) | -45.5% |
| Entrustment | **43** | 156 | (113) | -72.4% |
| **PRC Total** | **167,730** | 191,042 | (23,312) | -12.2% |
| **Taiwan** | | | | |
| Products | **54,355** | 56,093 | (1,738) | -3.1% |
| Services | **2,875** | 3,613 | (738) | -20.4% |
| Entrustment | **–** | – | – | n/a |
| **Taiwan Total** | **57,230** | 59,706 | (2,476) | -4.1% |
| **Others** | | | | |
| Products | **4,246** | 4,193 | 53 | 1.3% |
| Services | **399** | 388 | 11 | 2.8% |
| Entrustment | **–** | – | – | n/a |
| **Others Total** | **4,645** | 4,581 | 64 | 1.4% |

### PRC Market

Turnover in the PRC market dropped by 12.2% for the six months ended 30 June 2010. The decline was mainly due to change of trade inventory strategy and the launch of new franchisee incentive scheme in July 2010 which deferred the order of goods before the end of reviewing period. At the same time, the Group decided to discontinue the business of some product lines and re-focus on more profitable core products. Thus, non-cash provision for slow moving and obsolete inventory of HK$10.9 million were made on inventories and charged to the cost of sales. Product gross margin dropped from 87.0% for the six months ended 30 June 2009 to 81.5% for the same period in 2010. If these non-cash provision for slow moving and obsolete inventory were excluded, the product gross profit margin would be approximately 88%.

Operating profit and net profit decreased by HK$54.6 million and HK$65.7 million respectively for the period under review.

### Taiwan Market

Taiwan market also experienced similar trend as in the PRC market. During the six months ended 30 June 2010, product sales in Taiwan market declined by 3.1% to HK$54.4 million as compared with HK$56.1 million for the corresponding period in 2009. Operating profit and net profit decreased by HK$21.0 million and HK$22.0 million respectively.

### Distribution channels

| Store Number by Ownership As at 30 June 2010 | Franchisee owned Spa | Self owned Spa | Total Spa | Entrusted Counter | Self owned Counter | Total Counter | Grand Total |
|---|---|---|---|---|---|---|---|
| Taiwan | 366 | 8 | 374 | – | – | – | 374 |
| PRC | 1,079 | 6 | 1,085 | 15 | 42 | 57 | 1,142 |
| Others | 32 | 2 | 34 | – | – | – | 34 |
| **Total** | 1,477 | 16 | 1,493 | 15 | 42 | 57 | 1,550 |

| Store Number by Ownership As at 30 June 2010 | Franchisee owned | Entrusted | Self owned | Total |
|---|---|---|---|---|
| Taiwan | 366 | – | 8 | 374 |
| PRC | 1,079 | 15 | 48 | 1,142 |
| Others | 32 | – | 2 | 34 |
| **Total** | 1,477 | 15 | 58 | 1,550 |

| Average sales per store | 1H2010 Average store* | 1H2009 Average store* | 1H2010 Average sales per store *HK$* | 1H2009 Average sales per store *HK$* | Changes *HK$* | Changes % |
|---|---|---|---|---|---|---|
| PRC | 1,168.5 | 1,451.0 | 144,000 | 132,000 | 12,000 | 9.1% |
| Taiwan | 405.5 | 444.0 | 141,000 | 129,000 | 12,000 | 9.3% |
| **Group total**** | 1,574.0 | 1,895.0 | 143,000 | 131,000 | 12,000 | 9.2% |

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

** *Group total does not include Hong Kong, Macau 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 its income from its unique distribution channels, namely spas and counters in department stores. As at 30 June 2010, there were 1,493 spas and 57 counters. All spas provide a variety of services, including hydrotherapy, facial treatment, body care and skin care analysis, whereas counters in department stores usually provide skin care analysis.

As at 30 June 2010, there were a total of 1,477 franchisee spas, and 16 spas and 42 counters were directly operated by the Group. There were also 15 counters entrusted to reputable operators.

A total of 19 new stores were opened and 155 stores were closed during the period under review. The closure was mainly due to franchisees' violation of franchise terms as concluded by our store audit carried out during 2010. Franchisees who sold non-Natural Beauty products, failed to achieve minimum targets or failed to attend our free and compulsory training programs would have the franchise arrangement terminated. Through the elimination of those non-compliant stores, a good and consistent franchise network is maintained so as to ensure the service quality for consumers.

Despite the drop in sales and the number of stores, the average sales per store for the six months ended 30 June 2010 showed an improvement. Average sales per store in PRC for the six months ended 30 June 2010 increased by 9.1% to HK$144,000. In Taiwan, average sales per store rose by 9.3% from HK$129,000 to HK$141,000 during the period under review.

With the change in trade inventory strategy, the inventory level in the channel should have reduced and in turn improve the cashflow of the franchisees.

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

**Retail Business – Fonperi**

During the period under review, the Group has decided to terminate the operation of the Fonperi brand sold through retail channels in Taiwan and focus on its high-margin core business.

**Research and Development**

The Group puts much emphasis on research and development so as to maintain its competitive edge as well as improving the quality of existing products and developing new products. The Group has been collaborating with overseas cosmetic companies on technological development, and biotechnology materials were imported from Europe, Japan and Australia and applied to over 700 NB's products. The Group's research and development team comprises 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 the use of new ingredients developed by its research and development team. The Group believes that the collaboration of experts with different expertise and experience, together with Dr. Tsai's over 30 years of industry experience and knowledge, will create 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 women with delicate skin. NB's products are attentive to the natural metabolism of skin with long-lasting effects.

In terms of new products development, 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, with a view to ensuring the high quality, effectiveness and safety standard of NB's products. When a product requires registration with relevant authorities, it will be done before it is launched in the market. All NB products are carefully produced to meet all relevant regulations.

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 enjoys competitive advantages in the research and development of beauty and skin care products.

The total research and development costs for the six months ended 30 June 2010 amounted to HK$0.7 million compared with HK$1.7 million for the six months ended 30 June 2009.

**New Products**

Our flagship product, NB-1 products family includes anti-aging NB-1 series, NB-1 Whitening series, NB-1 anti-allergy, NB-1 pore refining series, etc. During the six months ended 30 June 2010, over 138,000 sets/bottles (1H2009: 114,000 sets/bottles) of NB-1 family products were sold with a turnover of HK$84.2 million (1H2009: HK$84.0 million), accounting for more than one-third of total product sales recorded during the period under review.

During the period under review, the Group continued to enrich the product range and launched 28 new products, including 6 new health supplement products.

**Human Resources**

As at 30 June 2010, the Group had a total of 958 employees, of whom 770 were based in the PRC, 169 in Taiwan and 19 in other areas. Total remuneration (excluding directors' emoluments) for the six months ended 30 June 2010 was approximately HK$61.5 million (1H2009: HK$52.5 million), including retirement benefits cost of HK$6.7 million (1H2009: HK$6.0 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a regular basis.

During the year, the Group has appointed new directors to strengthen the management team. In addition, the Group's chief executive officer, chief operating officer and chief financial officer and vice president of retail management have been on board since January/February 2010. The chief marketing officer was also reported to duty in July 2010. Leveraging the extensive franchise network management experience of the new management team, the Group is confident of the future development of its business.

The Group maintains good relations with its employees and is committed to offering them training. Professional training courses are offered to beauticians employed by the Group and to our franchisees on a regular basis, so as to promote and maintain the quality and consistency of the services provided.

## Capital Expenditures

The Group's major capital expenditures were related to self-owned spas, office renovation, IT infrastructure and machinery in its factories. There were HK$4.0 million additions to fixed assets for the six months ended 30 June 2010 (1H2009: HK$15.5 million).

Franchisees are responsible for the capital expenditures of their spas.

## OUTLOOK

As the PRC government's efforts to develop the domestic demand market are in full force, China's urbanization continually advances and the high-speed growth of disposable income per capita in the urban population continues, we have a very optimistic outlook on the PRC's beauty and spa market.

To achieve our goal of becoming the leading professional beauty and spas chain network in China, we have mapped out our retail strategies based on our ample market survey data and made a successful trial run of our new store model – "NB Total Skin Care Solution Center" in the first half of 2010. Under the new store model, our single-store revenue recorded a significant growth, and we intend to develop more than 100 "NB Total Skin Care Solution Center" across China in the second half of 2010.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Accordingly, the Board has established the audit committee and the remuneration committee with defined terms of reference which are of no less exacting terms than those set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance") as set out in Appendix 14 to the Listing Rules. These committees are chaired by 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

Ms. Christina Shieu Yeing Ng was appointed as member of the audit committee of the Company with effect from 24 November 2009. Dr. Su Sh Hsyu, Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching resigned and Dr. Su Chien Cheng, Mr. Francis Goutenmacher, Ms. Su Mei Thompson, Mr. Chen Ruey Long and Mr. Yang Tze Kaing were appointed as the members of the audit committee of the Company with effect from 1 February 2010. The Audit Committee has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The unaudited financial statements of the Company for the six months ended 30 June 2010 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

Mr. Patrick Thomas Siewert was appointed as member of the remuneration committee of Natural Beauty with effect from 24 November 2009. Dr. Su Chien Cheng, Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching resigned and Dr. Tsai Yen Yu, Dr. Su Sh Hsyu, Mr. Gregory Michael Zeluck, Mr. Chen Ruey Long and Ms. Su Mei Thompson were appointed as the members of the remuneration committee of the Company with effect from 1 February 2010. The remuneration committee 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 six months ended 30 June 2010, except for the following deviation:

## Code provision E.1.2

This code provision stipulates that the chairman of the board of a listed issuer should attend the issuer's annual general meeting. Dr. Tsai Yen Yu, the Chairperson of the Company, was unfit to travel under medical advice and was unable to present at the Company's 2010 annual general meeting held on 24 May 2010. The Board had arranged for Mr. Patrick Thomas Siewert, the Vice-Chairman of the Company and a member of the Executive Committee of the Group, 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.

Mr. Francis Goutenmacher, an independent non-executive director of the Company, also attended the AGM.

## 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 six months ended 30 June 2010, 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.

## INTERIM DIVIDEND

The Board has resolved to recommend the payment of an interim dividend of 3.5 HK cents per share (2009: interim dividend of 3.5 HK cents per share). The interim dividend will be distributed on or around 8 October 2010 to shareholders whose names appear on the register of members of the Company as at the close of business on 10 September 2010.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 September 2010 to 10 September 2010, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the interim 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 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 September 2010. The interim dividend will be distributed on or around 8 October 2010.

## PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

This interim results announcement is also published on the website of the Stock Exchange and that of the Company at www.nblife.com/ir. An interim report of the Company containing all the information required by paragraph 37 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 at the date of this announcement, the board of the Company comprises Dr. Tsai Yen-Yu and Mr. Lee Ming-Ta as executive directors, Dr. Su Chien-Cheng, Dr. Su Sh-Hsyu, Mr. Patrick Thomas Siewert, Mr. Gregory Michael Zeluck, Ms. Janine Junyuan Feng and Ms. Christina Shieu-Yeing Ng as non-executive directors and Mr. Francis Goutenmacher, Ms. Su-Mei Thompson, Mr. Chen Ruey-Long and Mr. Yang Tze-Kaing as independent non-executive directors.*

Hong Kong, 17 August 2010