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 2011

HIGHLIGHTS

- Turnover increased by 25.6% to HK$288.5 million
- Net profit surged by 280.9% to HK$60.4 million
- Gross margin maintain at a high level of 78%
- Net cash increased slightly to HK$577.1 million with no borrowing despite dividend paid out of HK$90 million during the first six months
- Interim dividend of HK$0.035 per share (Dividend payout at 115.9%), same as 1H2010

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 2011, together with the comparative figures for 2010, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011
(With comparatives for the six months ended 30 June 2010)
(Expressed in thousands of Hong Kong dollars (HK$'000))

		For the six months ended 30 June	
		2011	2010
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**288,476**	229,605
Cost of sales		**(64,030)**	(70,195)
Gross profit		**224,446**	159,410
Other income		**7,815**	10,453
Distribution and selling expenses		**(97,591)**	(67,831)
Administrative expenses		**(49,317)**	(64,313)
Other expenses		**(5,247)**	(1,146)
Profit before tax		**80,106**	36,573
Income tax expense	*5*	**(19,750)**	(20,729)
Profit for the period	*6*	**60,356**	15,844
Other comprehensive income:			
Exchange differences arising on translation		**16,626**	5,800
Total comprehensive income for the period		**76,982**	21,644
Profit for the period attributable to:			
Owners of the Company		**60,439**	15,900
Non-controlling interests		**(83)**	(56)
		60,356	15,844
Total comprehensive income attributable to:			
Owners of the Company		**77,064**	21,693
Non-controlling interests		**(82)**	(49)
		76,982	21,644
Dividends – proposed	*7*	**70,074**	70,074
Earnings per share	*8*		
– Basic and diluted		**3.02 HK cents**	0.79 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2011
(with comparatives at 31 December 2010)
(Expressed in thousands of Hong Kong dollars (HK$'000))

	Notes	At 30 June 2011 (unaudited) HK$'000	At 31 December 2010 (audited) HK$'000
Non-current assets			
Investment properties		**5,342**	5,251
Property, plant and equipment		**236,946**	232,078
Prepaid lease payments		**9,709**	9,636
Goodwill		**27,155**	26,640
Deferred taxation assets		**1,033**	–
		280,185	273,605
Current assets			
Inventories		**38,995**	46,725
Trade and other receivables	9	**48,952**	44,392
Prepaid lease payments		**296**	289
Pledged bank deposit		**432**	432
Bank balances and cash		**577,090**	575,488
		665,765	667,326
Current liabilities			
Trade and other payables	10	**137,618**	126,102
Deferred income		**8,604**	10,555
Taxation payable		**9,354**	9,045
		155,576	145,702
Net current assets		**510,189**	521,624
Total assets less current liabilities		**790,374**	795,229
Non-current liability			
Retirement benefit obligations		**10,884**	10,493
Deferred taxation liabilities		**–**	2,102
		10,884	12,595
		779,490	782,634
Capital and reserves			
Share capital		**200,210**	200,210
Reserves		**579,215**	582,277
Equity attributable to owners of the Company		**779,425**	782,487
Non-controlling interests		**65**	147
Total equity		**779,490**	782,634

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2011
(With comparatives for the six months ended 30 June 2010 and as of 31 December 2010)
(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 2010, 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 2011.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)-INT 14 (Amendments)	Prepayments of a minimum funding requirement
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments

The application 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.

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

HKFRS 7 (Amendments)	Disclosure – Transfers of financial assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[2]
HKAS 19 (2011)	Employee Benefits[4]
HKAS 27 (2011)	Separate Financial Statements[4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[4]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 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 operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Chief Executive Officer of the Company, in order to allocate resources to the segment and to assess its performance. The Chief Executive Officer of the Company reviews internal report focuses on geographical segments by location of customers for the purposes of resource allocation and assessment of segment performance. This is the basis upon which the Group is organised.

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

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

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

	PRC (unaudited) *HK$'000*	**Taiwan (unaudited)** *HK$'000*	**Others (unaudited)** *HK$'000*	**Total (unaudited)** *HK$'000*
For the six months ended 30 June 2011				
Revenue from external customers	**230,278**	**54,828**	**3,370**	**288,476**
Segment profit (loss)	**85,446**	**16,420**	**(1,989)**	**99,877**
Unallocated corporate expenses				**(21,531)**
Unallocated income				**1,760**
Profit before tax				**80,106**

	PRC (unaudited) *HK$'000*	Taiwan (unaudited) *HK$'000*	Others (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
For the six months ended 30 June 2010				
Revenue from external customers	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 tax				36,573

The accounting policies of the reportable segments are the same as the Group's accounting policies in the preparation of the Group's annual financial statement. Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment. Unallocated income mainly includes interest income and exchange differences.

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	
	2011 (unaudited) ***HK$'000***	2010 (unaudited) *HK$'000*
Sales of goods	**284,681**	224,889
Service income	**3,795**	4,673
Entrustment fee income	**–**	43
	288,476	229,605

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 2011 (2010: 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	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Group:		
Overseas taxation	**22,885**	20,356
Deferred taxation	**(3,135)**	373
Taxation for the period	**19,750**	20,729

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	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Crediting:		
Interest income on bank deposits	**1,760**	1,076
Charging:		
Net loss on disposals of property, plant and equipment	**1,851**	1,044
Net exchange loss	**839**	339
Staff costs, excluding directors' emoluments		
– Salaries and wages	**61,243**	54,873
– Pension costs		
– PRC	**10,308**	5,137
– Taiwan	**1,428**	1,411
– Hong Kong and other regions	**97**	114
Directors' emoluments (salaries and allowances)*	**2,714**	1,967
Depreciation of property, plant and equipment	**10,556**	10,350
Allowance for obsolete inventories	**346**	24,937
(Reversal of allowance) impairment loss on trade receivables	**(904)**	5,922
Operating lease expense on land and buildings	**16,628**	14,801
Research and development costs	**1,150**	677

* *Included in directors' remuneration were fees of HK$1,580,000 (2010: HK$1,586,000), paid or payable to directors during the report period.*

7. DIVIDENDS

The directors proposed an interim dividend of 3.5 HK cents per share (2010: 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$60,439,000 for the six months ended 30 June 2011 (2010: HK$15,900,000) divided by weighted average number of approximately 2,002,100,932 ordinary shares (2010: 2,002,100,932) 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 2010 and 2011.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2011 (unaudited) *HK$'000*	At 31 December 2010 (audited) *HK$'000*
Trade receivables	**24,388**	21,392
Less: allowance for doubtful debts	**(1,973)**	(2,828)
	22,415	18,564
Prepayments and deposits	**10,159**	9,551
Other receivables	**16,378**	16,277
Total trade and other receivables	**48,952**	44,392

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 2011 (unaudited) *HK$'000*	At 31 December 2010 (audited) *HK$'000*
Within 180 days	**20,334**	18,372
181 days to 365 days	**2,081**	192
	22,415	18,564

The fair value of the Group's trade and other receivables at 30 June 2011 was approximate to the corresponding carrying amount.

10. TRADE AND OTHER PAYABLES

	At 30 June 2011 (unaudited) *HK$'000*	At 31 December 2010 (audited) *HK$'000*
Trade payables	**18,134**	13,032
Deposits from customers	**22,880**	20,209
Other tax payables	**10,306**	8,086
Other payables	**86,298**	84,775
Total trade and other payables	**137,618**	126,102

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 2011 (unaudited) *HK$'000*	At 31 December 2010 (audited) *HK$'000*
Within 180 days	**18,134**	13,032
181 days to 365 days	**–**	–
	18,134	13,032

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by geographical region	1H2011		1H2010		Changes	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
PRC	**230,278**	**79.8%**	167,730	73.1%	62,548	37.3%
Taiwan	**54,828**	**19.0%**	57,230	24.9%	(2,402)	-4.2%
Others	**3,370**	**1.2%**	4,645	2.0%	(1,275)	-27.4%
Total	**288,476**	**100.0%**	229,605	100.0%	58,871	25.6%

During the six months ended 30 June 2011, turnover of the Group increased by 25.6% to HK$288.5 million when compared with the turnover of HK$229.6 million for the six months ended 30 June 2010, due to an increase in product sales of HK$59.8 million generated from the strong performance of the new concept stores and higher average sales per store in the PRC.

Turnover in the PRC market increased by 37.3% from HK$167.7 million to HK$230.3 million for the six months ended 30 June 2011. The increase in turnover was mainly due to a HK$62.9 million increase in product sales. Meanwhile, service income declined by HK$300,000 from HK$1.4 million for the six months ended 30 June 2010 to HK$1.1 million for the corresponding period of 2011 as a result of closures of two of the Group's self-owned spas during 2011. Turnover in Taiwan dropped 4.2% to HK$54.8 million for the six months ended 30 June 2011 compared with HK$57.2 million for the same period in 2010 due to the stagnant consumer market in Taiwan. The Group also closed two self-owned spas in Taiwan during the first six months in 2011. Affected customers were transferred to independent franchisees.

Sales from other regions, including Hong Kong, Macau and Malaysia, decreased 27.4% to HK$3.4 million for the six months ended 30 June 2011 due to the closure of a self-owned spa in Hong Kong. The contribution from these regions remained at an insignificant level of 1.2% of the Group's turnover.

The Group's overall gross profit margin widened from 69.4% for the six months ended 30 June 2010 to 77.8% for the same period in 2011. During the six months ended 30 June 2010, the Group decided to discontinue non-performing product lines and shifted its focus to more profitable core products. As a result, a non-cash provision of HK$24.9 million for slow moving and obsolete inventories was charged to Cost of Sales. A non-cash provision of HK$346,000 was charged to Cost of Sales for the same period in 2011.

Turnover by activities	**1H2011**	1H2010	Changes	
	HK$'000	*HK$'000*	*HK$'000*	%
Products				
PRC	**229,143**	166,288	62,855	37.8%
Taiwan	**52,240**	54,355	(2,115)	-3.9%
Others	**3,298**	4,246	(948)	-22.3%
Total	**284,681**	224,889	59,792	26.6%
Services				
PRC	**1,135**	1,399	(264)	-18.9%
Taiwan	**2,588**	2,875	(287)	-10.0%
Others	**72**	399	(327)	-82.0%
Total	**3,795**	4,673	(878)	-18.8%
Entrustment				
PRC	**–**	43	(43)	-100.0%
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**–**	43	(43)	-100.0%

Turnover by activities	**1H2011**		1H2010		Changes	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Products	**284,681**	**98.7%**	224,889	97.9%	59,792	26.6%
Services	**3,795**	**1.3%**	4,673	2.1%	(878)	-18.8%
Entrustment	**–**	**0.0%**	43	0.0%	(43)	-100.0%
Total	**288,476**	**100.0%**	229,605	100.0%	58,871	25.6%

Products

The Group is principally engaged in the manufacturing and sale of a selected range of products, including skin care, beauty, aroma-therapeutic products, health supplements and color make-up, under the "Natural Beauty" brand name. Sales of products constitute the Group's key revenue contributor and are primarily derived from franchised spas, self-owned spas and concessionary counters in department stores. Sales of products for the six months ended 30 June 2011 amounted to HK$284.7 million, or 98.7% of the Group's total revenue, representing an increase of HK$59.8 million when compared with sales of HK$224.9 million (or 97.9% of the Group's total revenue), for the same period in 2010. The increase in product sales was mainly driven by the PRC, where sales rose by HK$62.9 million on the back of strong growth momentum for the new concept stores and higher productivity per store. Gross margin on sales of products for the period widened from 74.4% for the six months ended 30 June 2010 to 80.9 % for the corresponding period in 2011.

Service income	**1H2011**		1H2010		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Training income	**66**	**1.7%**	370	7.9%	(304)	-82.2%
SPA service income	**2,632**	**69.4%**	3,740	80.0%	(1,108)	-29.6%
Others	**1,097**	**28.9%**	563	12.1%	534	94.8%
Total	**3,795**	**100.0%**	4,673	100.0%	(878)	-18.8%

Services

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

The Group provides skin treatment, beauty and spa services through its self-owned spas. The Group's strategy is to establish self-owned spas as model outlets in strategic locations to stimulate overall sales of products to franchisees.

Service income is solely derived from the Group's self-owned spas. The Group does not share any service income generated from spas run by franchisees under its current franchise arrangements. The service income the franchisees derive from the spas covers their operating expenses such as rentals, salaries and utilities. During the period under review, service income decreased by 18.8% to HK$3.8 million when compared with HK$4.7 million for the same period in 2010. The decrease was mainly due to the closures of four self-owned spas during 2011 (two in the PRC and two in Taiwan).

Entrustment

Entrusted spas, which were formerly operated by the Group, are owned by the Group and operated by reputable operators. In order to allocate financial and human resources more efficiently, the Group puts in place entrustment arrangements in the PRC under which its self-owned spas are entrusted to local reputable operators. The operators are responsible for selling the Group's products in their stores, and are entitled to all profits and responsible for all losses from the operations. The Group, meanwhile, receives a fixed annual entrustment fee from the operator until its initial investment in the spa is repaid, at which point, the entrusted spa becomes a regular franchised spa.

During the six months ended 30 June 2011, no entrustment income was recorded, compared with HK$43,000 recorded for the same period in 2010. The decline in entrustment income was attributable to the expiry of the remaining entrustment arrangements in 2010. The Group had no entrusted spas as at 30 June 2011.

Other income

Other income mainly comprised rental income of other properties, interest income and financial refunds, in the respective amounts of HK$700,000, HK$1.8 million and HK$4.5 million for the six months ended 30 June 2011. Other income decreased by 25.2%, or HK$2.7 million for the six months ended 30 June 2011, from HK$10.5 million for the six months ended 2010. The decrease was mainly due to a reduction in financial refunds amounting to HK$3.4 million during the period under review.

Distribution and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover increased significantly to 33.8% for the six months ended 30 June 2011 compared with 29.5% for the corresponding period in 2010. Total expenses increased by HK$29.8 million from HK$67.8 million for the six months ended 30 June 2010 to HK$97.6 million for the same period in 2011. The increase was mainly due to larger headcount given new sales force recruits, resulting in higher salaries, commissions and related personnel overheads during the period under review. Meanwhile, the Group has widened the media channels it is using for branding promotions, including magazines and the Internet, at the expense of more expensive, traditional promotional channels (e.g. gifts and free samples) to drive its sell-through trade inventory strategy. Advertising and promotion expenses increased slightly by HK$100,000 but dropped as a percentage of the Group's total turnover to 10.1% for the six months ended 30 June 2011, when compared with 12.6% for the same period in 2010. Other key expenses mainly include salaries, travel and transportation expenses as well as rentals of executive accommodation and counters, which amounted to HK$27.6 million, HK$5.1 million and HK$19.8 million, respectively for the six months ended 30 June 2011.

Total administrative expenses decreased by HK$15.0 million to HK$49.3 million for the six months ended 30 June 2011. Administrative expenses as a percentage of turnover decreased from 28.0% for the six months ended 30 June 2010 to 17.1% for the corresponding period in 2011. The declines in amount and percentage were attributable to lower rental costs due to closures of offices of subsidiaries in the PRC and Taiwan. Also, during the six months ended 30 June 2010, there had been a one-off provision for doubtful debts amounted to HK$5.9 million while there was a reversal of allowance due to debt recovery amounting to HK$900,000 during the six months ended 30 June 2011. Within administrative costs, staff costs and retirement benefits, legal and professional fees, traveling expenses, depreciation charges, rentals, and office and utilities expenses amounted to HK$25.2 million, HK$6.5 million, HK$1.7 million, HK$3.6 million, HK$2.5 million and HK$1.2 million, respectively for the six months ended 30 June 2011.

Other expenses

Other expenses increased from HK$1.1 million for the six months ended 30 June 2010 to HK$5.2 million for the same period in 2011, representing an increase of HK$4.1 million. Other expenses mainly includes HK$1.9 million loss on disposal of fixed assets due to the closures of spas and a HK$800,000 foreign exchange loss for the six months ended 30 June 2011.

Profit before taxation

Taking into account the increase in gross profit, lower administrative expenses, and increased distribution and selling expenses and other expenses, profit before tax increased by 119.0% from HK$36.6 million for the six months ended 30 June 2010 to HK$80.1 million for the six months ended 30 June 2011.

Taxation

Taxation expenses decreased 4.7% from HK$20.7 million for the six months ended 30 June 2010 to HK$19.8 million for the same period in 2011. The effective tax rates of the Group for the six months ended 30 June 2010 and 2011 were 56.7% and 24.7% respectively. The high effective tax rate for the six months ended 30 June 2010 was due to the payment of under-provided profit taxes related in previous years amounting to HK$5.1 million, as well as a non-tax-deductible inventory provision of HK$24.9 million charged to Cost of Sales during the six months ended 30 June 2010.

Profit for the period

As a result, profit for the period surged by 280.9 % from HK$15.8 million for the six months ended 30 June 2010 to H$60.4 million for the six months ended 30 June 2011.

Liquidity and financial resources

Cash generated from operating activities for the six months ended 30 June 2011 was approximately HK$91.4 million (HK$51.0 million for the six months ended 30 June 2010). The increase was primarily due to strong growth in profit before taxation and changes in working capital due to the stringent control on inventory. As at 30 June 2011, the Group had bank balances and cash of approximately HK$577.1 million (HK$575.5 million as at 31 December 2010) with no external bank borrowing.

In terms of gearing, as at 31 December 2010 and 30 June 2011, the Group's gearing ratios were zero (defined as net debt divided by shareholders' equity) as the Group was in a net cash position on both year/period end dates. Current ratios of the Group (defined as current assets divided by current liabilities) as at 31 December 2010 and 30 June 2011 were 4.6 times and 4.3 times respectively. As at 30 June 2011, 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 it has sufficient financial resources to finance its commitments and to meet its working capital requirements.

Charges on assets

As at 30 June 2011, the Group had pledged bank deposits amounting to HK$432,000 (HK$432,000 as at 31 December 2010) 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 the usage right for a self-owned store in Macau.

Treasury policies and exposure to fluctuations in exchange rates

Most of the Group's revenues are denominated in Renminbi and New Taiwan Dollars as its operations are mainly located in the PRC and Taiwan. As at 30 June 2011, approximately 84% (71.4% as at 31 December 2010) of the Group's bank balances and cash was denominated in Renminbi, while approximately 12.5% (10.3% as at 31 December 2010) in New Taiwan Dollars. The remaining 3.5% (18.3% as at 31 December 2010) was denominated in US Dollars, Hong Kong Dollars, Macau Pataca and Ringgit Malaysia. The Group continues to adopt a conservative approach in its foreign exchange exposure management. It reviews its foreign exchange risk periodically and uses derivative financial instruments to hedge against such risk when necessary

BUSINESS REVIEW

Turnover by geographic region	1H2011	1H2010	Changes	
	HK$'000	*HK$'000*	*HK$'000*	%
PRC				
Products	**229,143**	166,288	62,855	37.8%
Services	**1,135**	1,399	(264)	-18.9%
Entrustment	**–**	43	(43)	-100.0%
PRC Total	**230,278**	167,730	62,548	37.3%
Taiwan				
Products	**52,240**	54,355	(2,115)	-3.9%
Services	**2,588**	2,875	(287)	-10.0%
Entrustment	**–**	–	–	n/a
Taiwan Total	**54,828**	57,230	(2,402)	-4.2%
Others				
Products	**3,298**	4,246	(948)	-22.3%
Services	**72**	399	(327)	-82.0%
Entrustment	**–**	–	–	n/a
Others Total	**3,370**	4,645	(1,275)	-27.4%

The PRC Market

Turnover in the PRC market increased by 37.3% for the six months ended 30 June 2011 to HK$230.3 million compared with HK$167.7 million for the same period in 2010. The growth was mainly due to the strong performance of the new concept stores and improved average sales per store. Gross margin on product sales remained high at 80.9% for the six months ended 30 June 2011.

With the introduction of more stringent cost controls, profit before tax and net profit in the PRC increased by 46.4% or HK$27.1 million and 67.7% or HK$28.8 million respectively for the period under review.

The Taiwan Market

The Taiwan market exhibited a different trend compared with the PRC market with turnover decreasing slightly by 4.2% to HK$54.8 million during the six months ended 30 June 2011. As a result of the sluggish consumer market, sales of products in the Taiwan market declined by 3.9% to HK$52.2 million for the six months ended 30 June 2011 compared with HK$54.4 million for the corresponding period in 2010. However, with the introduction of more stringent cost controls in Taiwan, profit before tax and net profit increased by HK$22.3 million and HK$23.7 million respectively during the period under review.

Distribution channels

Store Number by Ownership As at 30 June 2011	Franchisee owned Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Grand Total
Taiwan	347	5	352	–	–	–	352
PRC	1,079	2	1,081	18	33	51	1,132
Others	33	1	34	–	–	–	34
Total	1,459	8	1,467	18	33	51	1,518

Store Number by Ownership As at 30 June 2011	Franchisee owned	Entrusted	Self owned	Total
Taiwan	347	–	5	352
PRC	1,079	18	35	1,132
Others	33	–	1	34
Total	1,459	18	41	1,518

Average sales per store	1H2011 Average store*	1H2010 Average store*	1H2011 Average sales per store	1H2010 Average sales per store	Changes	
			HK$	*HK$*	*HK$*	*%*
PRC	**1,108.5**	1,168.5	**208,000**	144,000	64,000	44.4%
Taiwan	**353.5**	405.5	**155,000**	141,000	14,000	9.9%
Group total**	**1,462.0**	1,574.0	**195,000**	143,000	52,000	36.4%

* *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 its income from its unique distribution channels, including spas and concessionary counters in department stores. As at 30 June 2011, there were 1,467 spas and 51 concessionary counters. A wide array of services, including hydrotherapy, facial treatment, body care and skin care analysis is provided in all the spas, while skin care analysis is usually available in the concessionary counters in department stores.

As at 30 June 2011, there were a total of 1,459 franchised spas, 8 spas and 33 concessionary counters directly operated by the Group. There were also 18 counters entrusted to reputable operators.

A total of 67 new stores were opened and 23 stores were closed during the period under review. The closures were mainly due to violations of franchise terms by franchisees or failure to achieve minimum sales targets. Through the elimination of these non-compliant and non-performing stores, a well-managed and coherent franchise network is being maintained by the Group so as to ensure the service quality for consumers.

Average sales per store for the six months ended 30 June 2011 improved strongly from HK$143,000 for the six months ended 30 June 2010 to HK$195,000 for the corresponding period in 2011. The average sales per store in PRC for the six months ended 2011 increased by 44.4% to HK$208,000. In Taiwan, the average sales per store also increased by 9.9% to HK$155,000 for the six months ended 30 June 2011.

With a change in trade inventory strategy, the inventory level in the channels was lowered which in turn improved the cash flow of the franchisees.

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

Research and Development

The Group puts a lot of emphasis on research and development so as to maintain its competitive edge as well as to improve the quality of its existing products and develop new products. The Group has been collaborating with overseas skin-care companies on technological development. The biotechnology materials the Group uses are imported from Europe, Japan and Australia and are applied to 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 by the application of new ingredients developed by the Group's research and development team. The Group believes that the collaboration of experts with different expertise and experiences, together with Dr. Tsai's 30-year-plus industry experience and knowledge, will allow it to continue to create high-quality beauty and skin care products. NB principally uses natural ingredients to manufacture products and adopts special formulae to cater to the specific needs of women with delicate skin. NB's products accommodate the natural metabolism of skin with long-lasting effects.

NB has collaborated with a leading researcher in the field of human genome and stem cell technology for the development of an anti-aging NB-1 product family and other products for spot removal, whitening, allergy-resistance and slimming. With Dr. Tsai's extensive experience in the beauty and skin care industry and the strong professional caliber of its research and development staff members, NB enjoys competitive advantages in the research and development of beauty and skin care products.

New Products

The Group's flagship 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 2011, over 246,000 sets/bottles (1H 2010: 138,000 sets/bottles) of NB-1 family products were sold with turnover aggregating HK$109.3 million (1H 2010: HK$84.2 million) and accounting for more than one-third of the Group's total product sales recorded during the period under review.

During the six months ended 30 June 2011, the Group continued to enrich this product range and launched 1 new skin care product, 3 new products for the aroma-therapeutic line and 4 new health supplements in the PRC.

Human Resources

As at 30 June 2011, the Group had a total of 839 employees, of whom 686 were based in the PRC, 143 in Taiwan and 10 in other areas. Total remuneration (excluding directors' emoluments) for the six months ended 30 June 2011 was approximately HK$73.1 million (1H2010: HK$61.5 million), including retirement benefits related costs of HK$11.8 million (1H2010: HK$6.7 million) and stock option expenses of HK$10.0 million. Competitive remuneration packages are maintained to attract, retain and motivate capable staff members and are reviewed on a regular basis.

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

In addition, the Group granted stock options to certain employees on 4 April 2011 to subscribe for a maximum of 90,895,381 shares which will vest a ratio of 40%, 20%, 20% and 20% over a four-year period subject to the grantees achieving certain performance targets. This resulted in HK$10.0 million in stock option expense for the period under review.

Capital Expenditures

The Group's major capital expenditures were related to its self-owned spas, refurbishment work for its offices, IT infrastructure and machineries in its factories. Fixed assets increased by HK$12.6 million for the six months ended 30 June 2011 (1H2010: HK$4.0 million), representing the cost of a new factory in the PRC amounting to approximately HK$7.2 million.

In December 2010, the Group moved its old Fengxian skin care plant to a new industrial development zone within Fengxian. The new plant has been set up in accordance with GMP standards so as to upgrade the quality of the Group's skin care products. Meanwhile, with the new production floor layout and consolidation in production capacity, production productivity will improve. The new plant commenced production in the first quarter of 2011.

OUTLOOK

As the PRC Government accelerates its efforts in developing domestic consumption, the country's urbanization will continue and the rapid growth of disposable income per capita in the urban population looks set to be maintained. Despite high inflation and rising labour costs, the Group continues to maintain an optimistic outlook on the beauty and spa market in the PRC.

Based on the successful launch of its new concept stores in 2010, the Group will continue to focus on adding more new concept stores in 2011 and beyond.

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

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 2011 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 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 2011, 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 (due to tooth implant) and was unable to present at the Company's 2011 annual general meeting held on 13 May 2011. 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 and Ms. Su-Mei Thompson, who are the independent non-executive directors 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 2011, 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 (2010: interim dividend of 3.5 HK cents per share). The interim dividend will be distributed on or around 12 October 2011 to shareholders whose names appear on the register of members of the Company as at the close of business on 9 September 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 September 2011 to 9 September 2011, 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 7 September 2011. The interim dividend will be distributed on or around 12 October 2011.

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

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, 23 August 2011