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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

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 2012, together with the comparative figures for 2011, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

(With comparatives for the six months ended 30 June 2011)

(Expressed in thousands of Hong Kong dollars (HK$'000))

		For the six months ended 30 June	
		2012	2011
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**250,925**	288,476
Cost of sales		**(46,869)**	(64,030)
Gross profit		**204,056**	224,446
Other income		**13,729**	7,815
Distribution and selling expenses		**(88,526)**	(97,591)
Administrative expenses		**(48,788)**	(49,317)
Other expenses		**(2,865)**	(5,247)
Profit before tax		**77,606**	80,106
Income tax expense	*4*	**(27,576)**	(19,750)
Profit for the period	*5*	**50,030**	60,356
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**3,331**	16,626
Total comprehensive income for the period		**53,361**	76,982
Profit (loss) for the period attributable to:			
Owners of the Company		**50,190**	60,439
Non-controlling interests		**(160)**	(83)
		50,030	60,356
Total comprehensive income (expense) attributable to:			
Owners of the Company		**53,519**	77,064
Non-controlling interests		**(158)**	(82)
		53,361	76,982
Earnings per share			
– Basic and diluted	*7*	**HK2.51 cents**	HK3.02 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012
(With comparatives at 31 December 2011)
(Expressed in thousands of Hong Kong dollars (HK$'000))

	Notes	At 30 June 2012 (unaudited) HK$'000	At 31 December 2011 (audited) HK$'000
Non-current assets			
Investment properties		**5,145**	5,117
Property, plant and equipment		**264,198**	261,106
Prepaid lease payments		**9,610**	9,710
Goodwill		**27,629**	27,507
Deferred tax assets		**3,591**	–
		310,173	303,440
Current assets			
Inventories		**58,679**	40,260
Trade and other receivables	8	**63,915**	55,891
Prepaid lease payments		**302**	300
Pledged bank deposits		**–**	443
Bank balances and cash		**468,256**	558,292
		591,152	655,186
Current liabilities			
Trade and other payables	9	**110,824**	135,832
Deferred income		**6,557**	6,476
Tax liabilities		**18,487**	12,802
		135,868	155,110
Net current assets		**455,284**	500,076
Total assets less current liabilities		**765,457**	803,516
Non-current liabilities			
Retirement benefit obligations		**10,064**	10,009
Deferred tax liabilities		**–**	5,322
		10,064	15,331
		755,393	788,185
Capital and reserves			
Share capital		**200,210**	200,210
Reserves		**555,160**	587,794
Equity attributable to owners of the Company		**755,370**	788,004
Non-controlling interests		**23**	181
Total equity		**755,393**	788,185

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2012

(With comparatives for the six months ended 30 June 2011 and as of 31 December 2011)

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

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Long Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. 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 under HKFRS 8 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 and operating segment.

	PRC (unaudited) *HK$'000*	**Taiwan (unaudited)** *HK$'000*	**Others (unaudited)** *HK$'000*	**Total (unaudited)** *HK$'000*
For the six months ended 30 June 2012				
Revenue from external customers	**189,601**	**57,467**	**3,857**	**250,925**
Segment profit (loss)	**77,178**	**23,584**	**(1,062)**	**99,700**
Unallocated corporate expenses				**(25,859)**
Unallocated income				**3,765**
Profit before tax				**77,606**

	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

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 statement. Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of equity-settled share based payments, 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.

3. REVENUE

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

	For the six months ended 30 June	
	2012 **(unaudited)** ***HK$'000***	2011 (unaudited) *HK$'000*
Sales of goods	**248,995**	284,681
Service income	**1,930**	3,795
	250,925	288,476

4. 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 2012 (2011: 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	
	2012	2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Overseas taxation	**30,132**	22,885
Deferred taxation	**(2,556)**	(3,135)
	27,576	19,750

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

	For the six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Net loss on disposals of property, plant and equipment	**542**	1,851
Net exchange loss	**1,930**	839
Depreciation of property, plant and equipment	**15,241**	10,556
Allowance for obsolete inventories	**2,364**	346
Reversal of allowance on trade receivables	**(401)**	(904)
Interest income on bank deposits	**(3,765)**	(1,760)

6. DIVIDENDS

During the current interim period a final dividend of HK5.0 cents per share in respect of the year ended 31 December 2011 (2011: HK4.5 cents per share in respect of the year ended 31 December 2010) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK$100,105,000 (2011: HK$90,095,000).

Subsequent to the end of the current interim period, the directors have determined that an interim dividend of HK2.0 cents per share (2011: HK3.5 cents) will be paid to the owners of the Company whose names appear in the Register of Members on 12 October 2012.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit attributable to owners of the Company of approximately HK$50,190,000 for the six months ended 30 June 2012 (2011: HK$60,439,000) and on the number of 2,002,100,932 ordinary shares (2011: 2,002,100,932) of the Company in issue during the period.

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for both six months ended 30 June 2011 and 2012.

8. TRADE AND OTHER RECEIVABLES

	At 30 June 2012 (unaudited) ***HK$'000***	At 31 December 2011 (audited) *HK$'000*
Trade receivables	**33,659**	27,941
Less: allowance for doubtful debts	**(1,561)**	(1,634)
	32,098	26,307
Prepayments	**9,019**	9,838
Other receivables	**22,798**	19,746
Total trade and other receivables	**63,915**	55,891

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 2012 (unaudited) ***HK$'000***	At 31 December 2011 (audited) *HK$'000*
Within 180 days	**32,098**	26,307

The fair value of the Group's trade and other receivables at 30 June 2012 was approximate to the corresponding carrying amount.

9. TRADE AND OTHER PAYABLES

	At 30 June 2012 (unaudited)	At 31 December 2011 (audited)
	HK$'000	*HK$'000*
Trade payables	**28,487**	22,349
Deposits from customers	**27,426**	24,451
Other tax payables	**8,152**	8,608
Other payables	**46,759**	80,424
Total trade and other payables	**110,824**	135,832

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 2012 (unaudited)	At 31 December 2011 (audited)
	HK$'000	*HK$'000*
Within 180 days	**28,487**	22,349

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	1H2012		1H2011		Changes	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
PRC	**189,601**	**75.6%**	230,278	79.8%	(40,677)	-17.7%
Taiwan	**57,467**	**22.9%**	54,828	19.0%	2,639	4.8%
Others	**3,857**	**1.5%**	3,370	1.2%	487	14.5%
Total	**250,925**	**100.0%**	288,476	100.0%	(37,551)	-13.0%

During the six months ended 30 June 2012, turnover of the Group decreased by 13.0% to HK$250.9 million compared with HK$288.5 million for the six months ended 30 June 2011. The decline was mainly due to a decrease in product sales of HK$35.7 million as a result of the deteriorating economic environment in the PRC, as characterized by the overall slowdown of retail sales growth, especially during the second quarter.

For the six months ended 30 June 2012, turnover in the PRC market decreased by 17.7% from HK$230.3 million for the six months ended 30 June 2011 to HK$189.6 million. The decrease in turnover was mainly due to a HK$40.2 million decrease in product sales. Meanwhile, service income declined by HK$0.4 million from HK$1.1 million for the six months ended 30 June 2011 to HK$0.7 million. On the other hand, turnover in Taiwan improved 4.8% to HK$57.5 million compared with HK$54.8 million for the last corresponding period due to the successful launch of new concept stores and product price increase in the territory.

Sales from other regions, including Hong Kong, Macau and Malaysia, increased 14.5% to HK$3.9 million for the six months ended 30 June 2012. Contribution from these regions remained at an insignificant level of just 1.5% of the Group's turnover.

The Group's overall gross profit margin improved from 77.8% for the six months ended 30 June 2011 to 81.3% for the six months ended 30 June 2012 due to the higher sales mix of NB-1 and Yam products which have higher gross margins in the period under review.

Turnover by activities	1H2012	1H2011	Changes	
	HK$'000	*HK$'000*	*HK$'000*	*%*
Products				
PRC	**188,914**	229,143	(40,229)	-17.6%
Taiwan	**56,224**	52,240	3,984	7.6%
Others	**3,857**	3,298	559	16.9%
Total	**248,995**	284,681	(35,686)	-12.5%
Services				
PRC	**687**	1,135	(448)	-39.5%
Taiwan	**1,243**	2,588	(1,345)	-52.0%
Others	**–**	72	(72)	-100.0%
Total	**1,930**	3,795	(1,865)	-49.1%

Turnover by activities	1H2012		1H2011		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Products	**248,995**	**99.2%**	284,681	98.7%	(35,686)	-12.5%
Services	**1,930**	**0.8%**	3,795	1.3%	(1,865)	-49.1%
Total	**250,925**	**100.0%**	288,476	100.0%	(37,551)	-13.0%

Products

The Group is principally engaged in the manufacturing and sale of a range of products including skin care, beauty, aroma-therapeutic products, health supplements and make-up under the "Natural Beauty" brand name. Sales of products are the Group's key revenue source and primarily come from franchised spas, self-owned spas and concessionary counters in department stores. Sales of products for the six months ended 30 June 2012 amounted to HK$249.0 million, or 99.2% of the Group's total revenue, representing a decrease of HK$35.7 million when compared with sales of HK$284.7 million or 98.7% of the Group's total revenue for the six months ended 30 June 2011. The decrease in product sales was mainly driven by the sales decline of HK$40.2 million in the PRC market. Gross margin of sales of products for the Group as a whole improved from 80.9% for the six months ended 30 June 2011 to 83.7% for the six months ended 30 June 2012.

Service income	**1H2012**		1H2011		Changes	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Training income	**53**	**2.8%**	66	1.7%	(13)	-19.7%
SPA service income	**1,359**	**70.4%**	2,632	69.4%	(1,273)	-48.4%
Others	**518**	**26.8%**	1,097	28.9%	(579)	-52.8%
Total	**1,930**	**100.0%**	3,795	100.0%	(1,865)	-49.1%

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 six months ended 30 June 2012, service income decreased by 49.1% to HK$1.9 million compared with HK$3.8 million for the six months ended 30 June 2011. The decrease was mainly due to the Group's decision to re-focus management resources on the more profitable franchise business leading to the closure of three self-owned spas.

Other income

Other income mainly comprised rental income from other properties, interest income and financial refunds of HK$1.2 million, HK$3.8 million and HK$6.7 million respectively during the six months ended 30 June 2012. Other income increased by 75.7%, or HK$5.9 million, to HK$13.7 million, from HK$7.8 million for the six months ended 30 June 2011 since there was an increase in financial refunds, interest income and rental income from other properties during the period under review.

Distribution and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover increased to 35.3% for the six months ended 30 June 2012 compared with 33.8% for the six months ended 30 June 2011. Total expenses decreased by HK$9.1 million from HK$97.6 million for the six months ended 30 June 2011 to HK$88.5 million for the six months ended 2012. The decrease was largely in line with the sales performance during 2012. Currently, the Group is using magazines and the Internet (websites and blogs), instead of the more expensive, traditional promotional channels (e.g. gifts and free samples) to drive sell-through of its inventory. Advertising and promotion expenses increased by HK$1.2 million from HK$21.4 million for the six months ended 30 June 2011 to HK$22.6 million for the six months ended 30 June

2012, and the amount as a percentage of the Group's total turnover increased from 7.4% for the six months ended 30 June 2011 to 9.0% for the six months ended 30 June 2012. Other key expenses include salaries, travel and entertainment expenses as well as rentals of executive accommodation and sales counters, which amounted to HK$28.2 million, HK$4.5 million and HK$17.7 million, respectively for the six months ended 30 June 2012.

Total administrative expenses decreased by HK$0.5 million to HK$48.8 million for the six months ended 30 June 2012. Administrative expenses as a percentage of turnover increased from 17.1% for the six months ended 30 June 2011 to 19.4% for the six months ended 30 June 2012. Administrative costs for the six months ended 30 June 2012 comprised mainly non-cash stock option expenses of HK$14.0 million, staff costs and retirement benefits of HK$11.9 million, legal and professional fees of HK$4.3 million, traveling expenses of HK$1.5 million, depreciation charges of HK$5.8 million and office and utilities expenses of HK$2.9 million.

Other expenses

Other expenses decreased from HK$5.2 million for the six months ended 30 June 2011 to HK$2.9 million for the six months ended 30 June 2012, representing a decrease of HK$2.3 million. Other expenses mainly include a HK$1.9 million foreign exchange loss during the period.

Profit before taxation

Taking into account the decrease in gross profit, lower distribution and selling expenses, administrative expenses and other expenses, and increased other income, profit before tax decreased by 3.1% from HK$80.1 million for the six months ended 30 June 2011 to HK$77.6 million for the six months ended 30 June 2012.

Taxation

Taxation expenses increased 39.6% from HK$19.8 million for the six months ended 30 June 2011 to HK$27.6 million for the six months ended 30 June 2012. The effective tax rate of the Group for the six months ended 30 June 2011 and 2012 was 24.7% and 35.5% respectively. The high effective tax rate for the six months ended 30 June 2012 was due to the expiry of a tax holiday enjoyed by a PRC subsidiary and the dividend withholding tax charged for the period which amounted to HK$7.9 million.

Profit for the period

Profit for the period decreased by 17.1% from HK$60.4 million for the six months ended 30 June 2011 to HK$50.0 million for the six months ended 30 June 2012.

Liquidity and financial resources

Cash generated from operating activities for the six months ended 30 June 2012 was approximately HK$21.7 million (HK$91.4 million for the six months ended 30 June 2011). The decline was mainly due to changes in working capital (increase in inventory and trade receivables while decrease in other payables). As at 30 June 2012, the Group had bank balances and cash of approximately HK$468.3 million (HK$558.3 million as at 31 December 2011) with no external bank borrowing.

In terms of gearing, as at 31 December 2011 and 30 June 2012, 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 2011 and 30 June 2012 were 4.2 times and 4.4 times respectively. As at 30 June 2012, 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

At 31 December 2011, the Group had pledged bank deposits amounting to HK$443,000 which are required pursuant to a tenancy agreement for one of its wholly-owned subsidiaries in relation to a self-owned store in Macau. With the termination of tenancy agreement, the charge was released in 2012.

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 2012, approximately 72.1% (81.5% as at 31 December 2011) of the Group's bank balances and cash was denominated in Renminbi, while approximately 21.8% (14.9% as at 31 December 2011) in New Taiwan Dollars. The remaining 6.1% (3.6% as at 31 December 2011) 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	1H2012	1H2011	Changes	
	HK$'000	*HK$'000*	*HK$'000*	%
PRC				
Products	**188,914**	229,143	(40,229)	-17.6%
Services	**687**	1,135	(448)	-39.5%
Total	**189,601**	230,278	(40,677)	-17.7%
Taiwan				
Products	**56,224**	52,240	3,984	7.6%
Services	**1,243**	2,588	(1,345)	-52.0%
Total	**57,467**	54,828	2,639	4.8%
Others				
Products	**3,857**	3,298	559	16.9%
Services	**–**	72	(72)	-100.0%
Total	**3,857**	3,370	487	14.5%

The PRC Market

Turnover in the PRC market decreased by 17.7% for the six months ended 30 June 2012 to HK$189.6 million compared with HK$230.3 million for the six months ended 30 June 2011. The decline was mainly due to the deteriorating retail and economic environment. Gross margin on product sales improved from 80.5% for the six months ended 30 June 2011 to 83.3% for the period under review, as a result of the higher sales mix of NB-1 and Yam products with higher margins.

Despite the decline in turnover and gross profits, stringent cost control measures narrowed the decline of profit before tax in the PRC to 9.7% (or HK$8.3 million) and the decline of net profit to 7.9% (or HK$5.7 million) for the period under review.

The Taiwan Market

Turnover for Taiwan improved by 4.8% from HK$54.8 million for the six months ended 30 June 2011 to HK$57.5 million for the six months ended 30 June 2012 due to the successful launch of new concept stores and product price increase in the territory. Coupled with more stringent cost controls and a smaller inventory provision in Taiwan for the six months ended 30 June 2012, profit before tax surged by 43.6% (or HK$7.2 million) and net profit surged by 49.7% (or HK$6.8 million) for the period under review.

Distribution channels

Store Number by Ownership As at 30 June 2012	Franchisee owned Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Grand Total
Taiwan	312	3	315	–	–	–	315
PRC	1,186	2	1,188	27	27	54	1,242
Others	33	–	33	–	–	–	33
Total	1,531	5	1,536	27	27	54	1,590

Store Number by Ownership As at 30 June 2012	Franchisee owned	Entrusted	Self owned	Total
Taiwan	312	–	3	315
PRC	1,186	27	29	1,242
Others	33	–	–	33
Total	1,531	27	32	1,590

Average sales per store	1H2012 Average store *	1H2011 Average store *	1H2012 Average sales per store *HK$*	1H2011 Average sales per store *HK$*	Changes *HK$*	%
PRC	**1,217.0**	1,108.5	**156,000**	208,000	(52,000)	-25.0%
Taiwan	**314.0**	353.5	**183,000**	155,000	28,000	18.1%
Group total **	**1,531.0**	1,462.0	**161,000**	195,000	(34,000)	-17.4%

* 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.

The Group derives its income principally from its network of distribution channels, including spas and concessionary counters in department stores. As at 30 June 2012, there were 1,536 spas and 54 concessionary counters. Of these, 1,531 franchised spas, 5 spas and 27 concessionary counters were directly operated by the Group. 27 concessionary counters were entrusted to reputable operators. Franchised spas are owned by the franchisees who are responsible for the capital investment in these spas. They are obliged to use only Natural Beauty or "NB" products in their spas. A wide array of services including hydrotherapy, facial treatment, body care and skin care analysis, are provided in all the spas, while skin care analysis is widely available at the concessionary counters in department stores.

Group-wide, a total of 78 new stores were opened and 26 stores were closed during the six months ended 30 June 2012, with a net increase of 52 stores, of which 50 stores were located in the PRC. The closures were mainly due to violations of franchise terms or failure to achieve minimum sales targets by franchisees. Through the elimination of these non-compliant stores, a well-managed and coherent franchise network is being maintained by the Group, ensuring a consistently high quality experience and service for consumers.

Average sales per store for the six months ended 30 June 2012 decreased from HK$195,000 for the six months ended 30 June 2011 to HK$161,000 for the six months ended 30 June 2012. Average sales per store in the PRC for the six months ended 30 June 2012 decreased by 25% to HK$156,000. In Taiwan, average sales per store increased by 18% to HK$183,000 for the six months ended 30 June 2012.

Research and Development

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

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. The stem cell technology is patented in the United States to protect the uniqueness of the NB-1 products.

New Products

The Group's flagship NB-1 product family includes the anti-aging NB-1 series, NB-1 Whitening series, NB-1 anti-allergy and NB-1 pore refining series. During 2012, over 221,000 sets/bottles (246,000 sets/bottles for the six months ended 30 June 2011) of NB-1 family products were sold with turnover amounting to HK$93.1 million (HK$109.3 million for the six months ended 30 June 2011) and accounting for more than one-third of the Group's total product sales recorded for the six months ended 30 June 2012.

During the six months ended 30 June 2012, the Group continued to enrich this product portfolio and launched 10 new skin care products, 6 new products for the aroma-therapeutic line and 2 new NB-1 products in the PRC.

Human Resources

As at 30 June 2012, the Group had a total of 776 employees, of whom 651 were based in the PRC, 118 in Taiwan and 7 in other countries and regions. Total remuneration (excluding directors' emoluments) during the six months ended 30 June 2012 was approximately HK$72.3 million (HK$73.1 million for the six months ended 30 June 2011), including retirement benefit related costs of HK$8.7 million (HK$11.8 million for the six months ended 30 June 2011) and stock option expenses of HK$14.0 million (HK$10.0 million for the six months ended 30 June 2011). Competitive remuneration packages are maintained to attract, retain and motivate capable staff members and are reviewed on a regular basis.

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

In addition, the Group granted stock options to certain key employees on 4 April 2011 to subscribe for a maximum of 90,895,381 shares which will be vested in 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$14.0 million of stock option expense for the six months ended 30 June 2012 (HK$10.0 million for the six months ended 30 June 2011).

Capital Expenditures

The Group's major capital expenditure during the six months ended 30 June 2012 related to its self-owned spas and refurbishment work for its offices, IT infrastructure and machinery in its factories. Fixed assets increased by HK$21.3 million for the six months ended 30 June 2012 (HK$12.6 million for the six months ended 30 June 2011), mainly representing the expansion of its new factory in the PRC amounting to approximately HK$2.3 million, upgrades to its PRC and Taiwan IT system amounting to approximately HK$4.4 million and the renovation of self-owned spas, counters and branches amounting to approximately HK$14.4 million.

In December 2010, the Group moved its old Fengxian (Shanghai) skin care plant to a new industrial development zone within Fengxian. The new plant received GMP certification in January 2012, greatly facilitating the Group's plans to upgrade the quality of its skin care products as well as improving productivity with new production floor layout and consolidation in production capacity.

OUTLOOK

With the uncertain global economy, the slowing domestic economy and weak stock market sentiment, consumers have generally become more conservative in their spending, especially on certain higher-end discretionary products. In the midst of escalating operating costs (particularly rental and staff costs), we face a quite challenging retail environment, especially in Tier 1 & 2 cities in the PRC. We expect this to drive a new round of industry consolidation in the near future as it becomes increasingly difficult for smaller and marginal players to be profitable.

Based on the successful launch of its new concept stores, the Group will continue to focus on adding more stores in Tier 3 and 4 cities in the PRC and to convert other spa operators to become Natural Beauty franchisees. The Group will also continue to launch new concept stores in Taiwan and to control costs throughout the Group.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Accordingly, the Board has established the audit committee, the remuneration committee and nomination 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.

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 2012 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.

Nomination Committee

The nomination committee has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The nomination committee is responsible for, including but not limited to, reviewing the structure, size and composition of the Board and make recommendation to the Board on selection of candidates for directorships.

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 period ended 30 June 2012, except for the following deviations:

Code provision A4.1

This code provision stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Mr. Patrick Thomas Siewert, Ms. Ng Shieu Yeing Christina, Ms. Feng Janine Junyuan and Mr. Poon Yee Man Alwin, each a non-executive director of the Company, did not enter into service contracts with the Company as they are employees of Carlyle Asia Investment Advisors Limited, an entity established in Hong Kong. Carlyle Asia Investment Advisors Limited has offices in Hong Kong, Mumbai, Seoul, Beijing, Shanghai, Singapore and Sydney. Carlyle Asia Investment Advisors Limited acts as the Asian investment advisor to various Asian focused investment funds managed by The Carlyle Group.

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 2012 annual general meeting held on 11 May 2012. The Board had arranged for Mr. Patrick Thomas Siewert, the Vice-Chairman of the Company and the Chairman 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, Mr. Chen Ruey-Long 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 2012, 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 2.0 HK cents per share (2011: interim dividend of 3.5 HK cents per share). The interim dividend will be distributed on or around 9 November 2012 to shareholders whose names appear on the register of members of the Company as at the close of business on 12 October 2012.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 October 2012 to 12 October 2012, both days inclusive. In order to qualify for the interim dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 10 October 2012.

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, Mr. Lee Ming-Ta, Dr. Su Chien-Cheng and Dr. Su Sh-Hsyu as executive directors, Mr. Patrick Thomas Siewert, Ms. Janine Junyuan Feng, Ms. Christina Shieu-Yeing Ng and Mr. Poon Yee Man Alwin 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, 16 August 2012