

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



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 2013**

### **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 2013, together with the comparative figures for 2012, as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2013

(With comparatives for the six months ended 30 June 2012)

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

|  |              | <b>Six months<br/>ended 30 June</b> |                 |
|--|--------------|-------------------------------------|-----------------|
|  |              | <b>2013</b>                         | 2012            |
|  | <i>Notes</i> | <b>(unaudited)</b>                  | (unaudited)     |
|  |              | <b>HK\$'000</b>                     | <b>HK\$'000</b> |
| Revenue  | 3            | <b>203,599</b>                      | 250,925         |
| Cost of sales  |              | <b>(49,108)</b>                     | (46,869)        |
| Gross profit   |              | <b>154,491</b>                      | 204,056         |
| Other income   |              | <b>12,631</b>                       | 13,729          |
| Distribution and selling expenses                              |              | <b>(85,997)</b>                     | (88,526)        |
| Administrative expenses  |              | <b>(38,911)</b>                     | (48,788)        |
| Other expenses   |              | <b>(5,615)</b>                      | (2,865)         |
| Profit before tax  |              | <b>36,599</b>                       | 77,606          |
| Income tax expense   | 4            | <b>(441)</b>                        | (27,576)        |
| Profit for the period  | 5            | <b>36,158</b>                       | 50,030          |
| <b>Other comprehensive income (expense):</b>                   |              |                                     |                 |
| Items that will not be reclassified to profit or loss:         |              |                                     |                 |
| Loss on remeasurement of net defined benefit liability         |              | <b>(3,466)</b>                      | –               |
| Items that may be subsequently reclassified to profit or loss: |              |                                     |                 |
| Exchange differences arising on translation                    |              | <b>6,629</b>                        | 3,331           |
| Total comprehensive income for the period                      |              | <b>39,321</b>                       | 53,361          |
| Profit (loss) for the period attributable to:                  |              |                                     |                 |
| Owners of the Company  |              | <b>36,161</b>                       | 50,190          |
| Non-controlling interests                                      |              | <b>(3)</b>                          | (160)           |
|  |              | <b>36,158</b>                       | 50,030          |
| Total comprehensive income (expense) attributable to:          |              |                                     |                 |
| Owners of the Company  |              | <b>39,328</b>                       | 53,519          |
| Non-controlling interests                                      |              | <b>(7)</b>                          | (158)           |
|  |              | <b>39,321</b>                       | 53,361          |
| Earnings per share   | 7            |                                     |                 |
| – Basic  |              | <b>HK1.81 cents</b>                 | HK2.51 cents    |
| – Diluted  |              | <b>HK1.81 cents</b>                 | HK2.51 cents    |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013

(With comparatives at 31 December 2012)

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

|   | Notes | At<br>30 June<br>2013<br>(unaudited)<br>HK\$'000 | At<br>31 December<br>2012<br>(audited)<br>HK\$'000 |
|---|-------|--|--|
| <b>Non-current assets</b>                           |       |  |  |
| Investment properties                               |       | 5,784  | 5,962  |
| Property, plant and equipment                       |       | 262,819  | 272,762  |
| Prepaid lease payments                              |       | 9,513  | 9,465  |
| Goodwill  |       | 28,138   | 27,643   |
| Deposit paid for acquisition of land use right      |       | 12,566   | 12,303   |
| Available-for-sale investments                      |       | –  | –  |
| Deferred tax assets                                 |       | –  | 684  |
|   |       | 318,820  | 328,819  |
| <b>Current assets</b>                               |       |  |  |
| Inventories   |       | 68,066   | 67,427   |
| Trade and other receivables                         | 8     | 61,792   | 55,071   |
| Prepaid lease payments                              |       | 309  | 302  |
| Bank balances and cash                              |       | 463,075  | 432,441  |
|   |       | 593,242  | 555,241  |
| <b>Current liabilities</b>                          |       |  |  |
| Trade and other payables                            | 9     | 106,722  | 115,327  |
| Deferred income                                     |       | 7,484  | 5,927  |
| Taxation payable                                    |       | 2,042  | 4,704  |
|   |       | 116,248  | 125,958  |
| <b>Net current assets</b>                           |       | 476,994  | 429,283  |
| <b>Total assets less current liabilities</b>        |       | 795,814  | 758,102  |
| <b>Non-current liabilities</b>                      |       |  |  |
| Retirement benefit obligations                      |       | 13,271   | 10,106   |
| Deferred tax liabilities                            |       | 233  | –  |
|   |       | 13,504   | 10,106   |
|   |       | 782,310  | 747,996  |
| <b>Capital and reserves</b>                         |       |  |  |
| Share capital                                       |       | 200,210  | 200,210  |
| Reserves  |       | 582,294  | 547,973  |
| <b>Equity attributable to owners of the Company</b> |       | 782,504  | 748,183  |
| <b>Non-controlling interests</b>                    |       | (194)  | (187)  |
| <b>Total equity</b>                                 |       | 782,310  | 747,996  |

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2013**

*(With comparatives for the six months ended 30 June 2012 and as of 31 December 2012)*  
*(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 Kong 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**

**Segment revenues and results**

The following is an analysis of the Group’s revenue and results by reportable and operating segment for the period under review:

Six months ended 30 June 2013

|                                 | <b>PRC</b><br><b>(unaudited)</b><br><i>HK\$'000</i> | <b>Taiwan</b><br><b>(unaudited)</b><br><i>HK\$'000</i> | <b>Others</b><br><b>(unaudited)</b><br><i>HK\$'000</i> | <b>Total</b><br><b>(unaudited)</b><br><i>HK\$'000</i> |
|---------------------------------|---|--|--|---|
| Revenue from external customers | <u>161,060</u>                                      | <u>39,704</u>  | <u>2,835</u>   | <u>203,599</u>  |
| Segment profit (loss)           | <u>38,815</u>                                       | <u>7,126</u>   | <u>(1,237)</u>   | 44,704  |
| Unallocated corporate expenses  |   |  |  | (12,489)  |
| Unallocated income              |   |  |  | <u>4,384</u>  |
| Profit before tax               |   |  |  | <u>36,599</u>   |

Six months ended 30 June 2012

|                                 | PRC<br>(unaudited)<br><i>HK\$'000</i> | Taiwan<br>(unaudited)<br><i>HK\$'000</i> | Others<br>(unaudited)<br><i>HK\$'000</i> | Total<br>(unaudited)<br><i>HK\$'000</i> |
|---------------------------------|---------------------------------------|--|--|---|
| Revenue from external customers | <u>189,601</u>                        | <u>57,467</u>                            | <u>3,857</u>                             | <u>250,925</u>                          |
| Segment profit (loss)           | <u>77,178</u>                         | <u>23,584</u>                            | <u>(1,062)</u>                           | 99,700                                  |
| Unallocated corporate expenses  |                                       |  |  | (25,859)                                |
| Unallocated income              |                                       |  |  | <u>3,765</u>                            |
| Profit before tax               |                                       |  |  | <u>77,606</u>                           |

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.

### 3. 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 and (ii) service income from provision of skin treatments, beauty and SPA services for the period, and is analysed as follows:

|                | <b>Six months ended 30 June</b>               |  |
|----------------|---|--|
|                | <b>2013</b><br>(unaudited)<br><i>HK\$'000</i> | 2012<br>(unaudited)<br><i>HK\$'000</i> |
| Sales of goods | <b>201,693</b>                                | 248,995                                |
| Service income | <u><b>1,906</b></u>                           | <u>1,930</u>                           |
|                | <u><b>203,599</b></u>                         | <u>250,925</u>                         |

#### 4. INCOME TAX EXPENSE

|                                       | <b>Six months ended 30 June</b>       |                                |
|---------------------------------------|---------------------------------------|--------------------------------|
|                                       | <b>2013</b>                           | 2012                           |
|                                       | <b>(unaudited)</b><br><i>HK\$'000</i> | (unaudited)<br><i>HK\$'000</i> |
| The charge comprises:                 |                                       |                                |
| Taxation in PRC                       |                                       |                                |
| Current period                        | <b>3,342</b>                          | 20,998                         |
| (Over) underprovision in prior years  | <b>(5,396)</b>                        | 3,024                          |
|                                       | <u><b>(2,054)</b></u>                 | <u>24,022</u>                  |
| Taxation in Taiwan                    |                                       |                                |
| Current period                        | <b>1,312</b>                          | 3,842                          |
| Under (over) provision in prior years | <b>232</b>                            | (317)                          |
|                                       | <u><b>1,544</b></u>                   | <u>3,525</u>                   |
| Deferred taxation                     |                                       |                                |
| Current period                        | <b>951</b>                            | 29                             |
|                                       | <u><b>441</b></u>                     | <u>27,576</u>                  |

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. The decrease in current period taxation in the PRC is because no provision for PRC Enterprise Income Tax has been made for one of the major operating subsidiaries in the PRC as its assessable profit was wholly absorbed by the tax loss agreed by tax bureau in the current interim period. The Group has utilised tax losses of approximately HK\$39,896,000 (2012: HK\$Nil) available for offset against the assessable profit in the current period.

Overprovision for PRC tax in current interim period mainly represented written back of provision for PRC Enterprise Income Tax of a subsidiary in PRC made in prior year in connection with allowed deduction of certain expenses after assessment by the tax bureau during the current interim period.

Corporate Income Tax in Taiwan is charged at 17% in both periods.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

## 5. PROFIT FOR THE PERIOD

### Six months ended 30 June

| 2013        | 2012        |
|-------------|-------------|
| (unaudited) | (unaudited) |
| HK\$'000    | HK\$'000    |

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

|   |         |         |
|---|---------|---------|
| Depreciation of property, plant and equipment                 | 19,380  | 15,241  |
| Release of prepaid lease payments                             | 153     | 153     |
| Loss on disposal of property, plant and equipment             | –       | 542     |
| Total staff cost including share based payment expenses       | 69,088  | 75,119  |
| Written off of property, plant and equipment                  | 1,260   | –       |
| Allowance (reversal of allowance) on trade receivables        | 3,538   | (401)   |
| Allowance for obsolete inventories, included in cost of sales | 1,783   | 2,364   |
| Net exchange (gain) loss                                      | (890)   | 1,930   |
| Interest income on bank deposits                              | (3,974) | (3,765) |

## 6. DIVIDENDS

During the current interim period, a final dividend of HK0.28 cents per share in respect of the year ended 31 December 2012 (2012: HK5.0 cents per share in respect of the year ended 31 December 2011) was declared to be payable to the owners of the Company. The aggregate amount of the final dividend declared to be payable in the current interim period amounted to HK\$5,606,000 (2012: the aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$100,105,000).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK1.0 cents per share (2012: HK2.0 cents per share) will be paid to the owners of the Company whose names appear in the Register of Members on 11 October 2013.

## 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 the owners of the Company of approximately HK\$36,161,000 for the six months ended 30 June 2013 (2012: HK\$50,190,000) and on the number of 2,002,100,932 (2012: 2,002,100,932) ordinary shares 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 2012 and 2013.

## 8. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from one to six months to its trade customers. The following is an analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date, which approximated the revenue recognition dates, at the end of the reporting period.

|                      | At<br>30 June<br>2013<br>(unaudited)<br><i>HK\$'000</i> | At<br>31 December<br>2012<br>(audited)<br><i>HK\$'000</i> |
|----------------------|---|---|
| Trade receivables:   |   |   |
| Within 180 days      | 25,959  | 23,319  |
| 181 days to 365 days | <u>65</u>   | <u>4</u>  |
|                      | 26,024  | 23,323  |
| Prepayments          | 12,485  | 12,135  |
| Other receivables    | <u>23,283</u>   | <u>19,613</u>   |
|                      | <u>61,792</u>   | <u>55,071</u>   |

## 9. TRADE AND OTHER PAYABLES

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

|                         | At<br>30 June<br>2013<br>(unaudited)<br><i>HK\$'000</i> | At<br>31 December<br>2012<br>(audited)<br><i>HK\$'000</i> |
|-------------------------|---|---|
| Trade payables:         |   |   |
| Within 180 days         | 9,733   | 14,000  |
| 181 days to 365 days    | <u>3,956</u>  | <u>4,005</u>  |
|                         | 13,689  | 18,005  |
| Deposits from customers | 31,225  | 30,815  |
| Other tax payables      | 4,320   | 8,009   |
| Other payables          | 51,879  | 58,495  |
| Dividend payable        | <u>5,609</u>  | <u>3</u>  |
|                         | <u>106,722</u>  | <u>115,327</u>  |

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Turnover by

| geographical region | 1H2013                |                      | 1H2012                |                      | Changes                |               |
|---------------------|-----------------------|----------------------|-----------------------|----------------------|------------------------|---------------|
|                     | HK\$'000              | %                    | HK\$'000              | %                    | HK\$'000               | %             |
| PRC                 | <b>161,060</b>        | <b>79.1%</b>         | 189,601               | 75.6%                | (28,541)               | -15.1%        |
| Taiwan              | <b>39,704</b>         | <b>19.5%</b>         | 57,467                | 22.9%                | (17,763)               | -30.9%        |
| Others              | <b>2,835</b>          | <b>1.4%</b>          | 3,857                 | 1.5%                 | (1,022)                | -26.5%        |
| <b>Total</b>        | <b><u>203,599</u></b> | <b><u>100.0%</u></b> | <b><u>250,925</u></b> | <b><u>100.0%</u></b> | <b><u>(47,326)</u></b> | <b>-18.9%</b> |

During the six months ended 30 June 2013, turnover of the Group decreased by 18.9% to HK\$203.6 million compared with HK\$250.9 million for the six months ended 30 June 2012. The decline was mainly due to a decrease in product sales of HK\$47.3 million as a result of the more challenging economic environment in the PRC and Taiwan market, weak consumer sentiment and intensified competition in the spa industry.

For the six months ended 30 June 2013, turnover in the PRC market decreased by 15.1% from HK\$189.6 million for the six months ended 30 June 2012 to HK\$161.1 million for the same period this year. Turnover in Taiwan also declined 30.9% to HK\$39.7 million compared with HK\$57.5 million for the corresponding period last year.

Sales from other regions, including Hong Kong, Macau and Malaysia, decreased 26.5% to HK\$2.8 million for the six months ended 30 June 2013. Contribution from these regions remained at an insignificant level of just 1.4% of the Group's turnover.

The Group's overall gross profit margin declined from 81.3% for the six months ended 30 June 2012 to 75.9% for the six months ended 30 June 2013 due to the unfavorable sales mix with a higher proportion of lower-gross-margin products in the period under review combined with the cost inflation and deeper promotion offered.

| <b>Turnover by activities</b> | <b>1H2013</b>   | 1H2012          | Changes         |        |
|-------------------------------|-----------------|-----------------|-----------------|--------|
|                               | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | %      |
| <b>Products</b>               |                 |                 |                 |        |
| PRC                           | <b>160,379</b>  | 188,914         | (28,535)        | -15.1% |
| Taiwan                        | <b>38,479</b>   | 56,224          | (17,745)        | -31.6% |
| Others                        | <b>2,835</b>    | 3,857           | (1,022)         | -26.5% |
| <b>Total</b>                  | <b>201,693</b>  | 248,995         | (47,302)        | -19.0% |
| <b>Services</b>               |                 |                 |                 |        |
| PRC                           | <b>681</b>      | 687             | (6)             | -0.9%  |
| Taiwan                        | <b>1,225</b>    | 1,243           | (18)            | -1.4%  |
| <b>Total</b>                  | <b>1,906</b>    | 1,930           | (24)            | -1.2%  |

| <b>Turnover by activities</b> | <b>1H2013</b>   |               | <b>1H2012</b>   |               | <b>Changes</b>  |               |
|-------------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
|                               | <i>HK\$'000</i> | %             | <i>HK\$'000</i> | %             | <i>HK\$'000</i> | %             |
| Products                      | <b>201,693</b>  | <b>99.1%</b>  | 248,995         | 99.2%         | (47,302)        | -19.0%        |
| Services                      | <b>1,906</b>    | <b>0.9%</b>   | 1,930           | 0.8%          | (24)            | -1.2%         |
| <b>Total</b>                  | <b>203,599</b>  | <b>100.0%</b> | <b>250,925</b>  | <b>100.0%</b> | <b>(47,326)</b> | <b>-18.9%</b> |

### **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 products under the “Natural Beauty” brand. 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 2013 decreased by HK\$47.3 million to HK\$201.7 million, or 99.1% of the Group’s total revenue. For the six months ended 30 June 2012, sales of products were HK\$249.0 million or 99.2% of the Group’s total revenue. The decrease in product sales was mainly attributable to a sales decline of HK\$28.5 million in the PRC market, and a sales decrease of HK\$17.7 million in Taiwan market.

| <b>Service income</b> | <b>1H2013</b>       |                      | <b>1H2012</b>       |                      | <b>Changes</b>     |              |
|-----------------------|---------------------|----------------------|---------------------|----------------------|--------------------|--------------|
|                       | <i>HK\$'000</i>     | <i>%</i>             | <i>HK\$'000</i>     | <i>%</i>             | <i>HK\$'000</i>    | <i>%</i>     |
| Training income       | <b>110</b>          | <b>5.8%</b>          | 53                  | 2.8%                 | 57                 | 107.5%       |
| SPA service income    | <b>1,775</b>        | <b>93.1%</b>         | 1,359               | 70.4%                | 416                | 30.6%        |
| Others                | <b>21</b>           | <b>1.1%</b>          | 518                 | 26.8%                | (497)              | -95.9%       |
| <b>Total</b>          | <b><u>1,906</u></b> | <b><u>100.0%</u></b> | <b><u>1,930</u></b> | <b><u>100.0%</u></b> | <b><u>(24)</u></b> | <b>-1.2%</b> |

## 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 2013, service income totaled HK\$1.9 million, which was similar to that for the corresponding period last year.

## Other income

Other income was mainly comprised of rental income of HK\$1.7 million from other properties, interest income of HK\$4.0 million and financial refunds of HK\$6.6 million during the six months ended 30 June 2013. The amount of other income decreased by 8.0%, or HK\$1.1 million, to HK\$12.6 million, when compared to the HK\$13.7 million for the six months ended 30 June 2012.

## **Distribution and administrative expenses**

Distribution and selling expenses as a percentage of the Group's turnover increased to 42.2% for the six months ended 30 June 2013, compared with 35.3% for the six months ended 30 June 2012. Total expenses decreased by HK\$2.5 million from HK\$88.5 million for the six months ended 30 June 2012 to HK\$86.0 million for the six months ended 30 June 2013. The decrease reflected the sales decline during the first half of 2013. 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 attain a higher sell-through. Advertising and promotion expenses decreased by HK\$7.0 million from HK\$22.3 million for the six months ended 30 June 2012 to HK\$15.3 million for the six months ended 30 June 2013, and the amount as a percentage of the Group's total turnover decreased from 8.9% for the six months ended 30 June 2012 to 7.5% for the six months ended 30 June 2013. Other key expenses include salaries of HK\$33.3 million, travel and entertainment expenses of HK\$4.9 million, depreciation charges of HK\$7.7 million as well as rentals of offices and sales counters of HK\$14.3 million for the six months ended 30 June 2013.

Total administrative expenses decreased by HK\$9.9 million or 20.0% year on year to HK\$38.9 million for the six months ended 30 June 2013. The decrease in administrative expenses was mainly because of the cancellation of old stock option scheme during 2013, which resulted in a non-cash share based payment expense of HK\$0.6 million charged for the six months ended 30 June 2013. The non-cash share based payment expense was HK\$14.0 million for the six months ended 30 June 2012. Other administrative expenses comprised of staff costs and retirement benefits (excluding non-cash share based payment) of HK\$13.4 million, legal and professional fees of HK\$4.5 million, bad debt provision for aged accounts receivables of HK\$3.5 million, depreciation charges of HK\$6.3 million and office and utilities expenses of HK\$2.6 million.

## **Other expenses**

Other expenses increased by HK\$2.7 million from HK\$2.9 million for the six months ended 30 June 2012 to HK\$5.6 million for the six months ended 30 June 2013. Other expenses for the period mainly included loss of HK\$1.3 million on disposal of property, plant and equipment, professional fee of HK\$1.7 million paid for tax saving project, CEO recruitment fee of HK\$0.8 million and termination compensation of HK\$1.2 million to departing staff members.

## **Profit before taxation**

Taking into account the decreases in gross profit, distribution and selling expenses, administrative expenses and other income, and the increase in other expenses, profit before tax decreased by 52.8% to HK\$36.6 million for the six months ended 30 June 2013 from HK\$77.6 million for the six months ended 30 June 2012.

## **Taxation**

Taxation expenses decreased 98.4% from HK\$27.6 million for the six months ended 30 June 2012 to HK\$0.4 million for the six months ended 30 June 2013. The effective tax rates of the Group for the six months ended 30 June 2012 and 2013 were 35.5% and 1.2% respectively. The low effective tax rate for the six months ended 30 June 2013 was due to (1) utilization of tax loss in the PRC market which resulted from the tax saving project of HK\$6.3 million; (2) overprovision of PRC tax of HK\$5.4 million for financial year 2012; (3) additional dividend withholding tax and royalty withholding tax charged during the six months ended 30 June 2012 amounted to HK\$7.9 million; and (4) lower profit tax provision due to declined sales.

## **Profit for the period**

Profit for the period decreased by 27.7% to HK\$36.2 million for the six months ended 30 June 2013 from 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 2013 was approximately HK\$31.6 million (HK\$21.7 million for the six months ended 30 June 2012). The increase was mainly due to decrease in tax which resulted from tax saving project and refund of tax overprovided in prior year. As at 30 June 2013, the Group had bank balances and cash of approximately HK\$463.1 million (HK\$432.4 million as at 31 December 2012) with no external bank borrowing.

In terms of gearing, as at 31 December 2012 and 30 June 2013, 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 the year-end date and period-end date. Current ratios of the Group (defined as current assets divided by current liabilities) as at 31 December 2012 and 30 June 2013 were 4.4 times and 5.1 times respectively. As at 30 June 2013, 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.

## 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 2013, approximately 72.4% (70.9% as at 31 December 2012) of the Group's bank balances and cash was denominated in Renminbi, while approximately 21.8% (21.3% as at 31 December 2012) in New Taiwan Dollars. The remaining 5.8% (7.8% as at 31 December 2012) was denominated in US Dollars, Hong Kong Dollars, Macau Pataca and Malaysia Ringgit. The Group continues to adopt a conservative approach to 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

| <b>Turnover by geographic region</b> | <b>1H2013</b>          | 1H2012          | Changes         |          |
|--------------------------------------|------------------------|-----------------|-----------------|----------|
|                                      | <i><b>HK\$'000</b></i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>%</i> |
| <b>PRC</b>                           |                        |                 |                 |          |
| Products                             | <b>160,379</b>         | 188,914         | (28,535)        | -15.1%   |
| Services                             | <b>681</b>             | 687             | (6)             | -0.9%    |
| <b>PRC Total</b>                     | <b><u>161,060</u></b>  | <u>189,601</u>  | <u>(28,541)</u> | -15.1%   |
| <b>Taiwan</b>                        |                        |                 |                 |          |
| Products                             | <b>38,479</b>          | 56,224          | (17,745)        | -31.6%   |
| Services                             | <b>1,225</b>           | 1,243           | (18)            | -1.4%    |
| <b>Taiwan Total</b>                  | <b><u>39,704</u></b>   | <u>57,467</u>   | <u>(17,763)</u> | -30.9%   |
| <b>Others</b>                        |                        |                 |                 |          |
| Products                             | <b>2,835</b>           | 3,857           | (1,022)         | -26.5%   |
| Services                             | <b>–</b>               | –               | –               | N/A      |
| <b>Others Total</b>                  | <b><u>2,835</u></b>    | <u>3,857</u>    | <u>(1,022)</u>  | -26.5%   |

## The PRC Market

The Group's turnover in the PRC market decreased by 15.1% for the six months ended 30 June 2013 to HK\$161.1 million, compared with HK\$189.6 million for the six months ended 30 June 2012. The decline was mainly due to the more challenging retail and economic environment. Gross margin on product sales dropped from 83.3% for the six months ended 30 June 2012 to 78.8% for the period under review, as a result of the lower proportion of higher-margin products such as NB-1 and Yam products in the sales mix, deeper promotion discounts and cost inflation during the period under review.

## The Taiwan Market

The Group's turnover in the Taiwan market also declined by 30.9% from HK\$57.5 million for the six months ended 30 June 2012 to HK\$39.7 million for the six months ended 30 June 2013 due to the poor retail and economic environment. Gross margin on product sales declined from 82.0% for the six months ended 30 June 2012 to 78.9% for the period under review, as a result of the lower proportion of higher-margin products such as NB-1 and Yam products in the sales mix, deeper promotion discounts and cost inflation during the period under review.

## Distribution channels

| Store Number by Ownership<br>As at 30 June 2013 | Franchisee<br>owned<br>Spa | Self<br>owned<br>Spa | Total<br>Spa | Entrusted<br>Counter | Self<br>owned<br>Counter | Total<br>Counter | Grand<br>Total |
|---|----------------------------|----------------------|--------------|----------------------|--------------------------|------------------|----------------|
| Taiwan  | 287                        | 3                    | 290          | –                    | –                        | –                | 290            |
| PRC   | 1,114                      | 1                    | 1,115        | 18                   | 21                       | 39               | 1,154          |
| Others  | 30                         | –                    | 30           | –                    | –                        | –                | 30             |
| <b>Total</b>                                    | <b>1,431</b>               | <b>4</b>             | <b>1,435</b> | <b>18</b>            | <b>21</b>                | <b>39</b>        | <b>1,474</b>   |

| Store Number by Ownership<br>As at 30 June 2013 | Franchisee<br>owned | Entrusted | Self<br>owned | Total        |
|---|---------------------|-----------|---------------|--------------|
| Taiwan  | 287                 | –         | 3             | 290          |
| PRC   | 1,114               | 18        | 22            | 1,154        |
| Others  | 30                  | –         | –             | 30           |
| <b>Total</b>                                    | <b>1,431</b>        | <b>18</b> | <b>25</b>     | <b>1,474</b> |

| Average sales per store | 1H2013                | 1H2012                | 1H2013                       | 1H2012                       | Changes  |        |
|-------------------------|-----------------------|-----------------------|------------------------------|------------------------------|----------|--------|
|                         | Average store *       | Average store *       | Average sales per store HK\$ | Average sales per store HK\$ | HK\$     | %      |
| PRC                     | <b>1,163.5</b>        | 1,217.0               | <b>138,000</b>               | 156,000                      | (18,000) | -11.5% |
| Taiwan                  | <b>292.5</b>          | 314.0                 | <b>136,000</b>               | 183,000                      | (47,000) | -25.7% |
| <b>Group total **</b>   | <b><u>1,456.0</u></b> | <b><u>1,531.0</u></b> | <b>138,000</b>               | 161,000                      | (23,000) | -14.3% |

\* 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 2013, there were 1,435 spas and 39 concessionary counters. Of these, 1,431 were franchised spas, 4 self-owned spas and 21 concessionary counters were directly operated by the Group. Reputable operators were entrusted with the operation of 18 concessionary counters. 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.

The Group opened a total of 26 new stores and closed 50 stores during the six months ended 30 June 2013. 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 2013 decreased from HK\$161,000 for the six months ended 30 June 2012 to HK\$138,000 for the six months ended 30 June 2013. Average sales per store in the PRC for the six months ended 30 June 2013 decreased by 11.5% to HK\$138,000. In Taiwan, average sales per store decreased by 25.7% to HK\$136,000 for the six months ended 30 June 2013.



## **Research and Development**

The Group attaches importance to research and development which allows it to maintain its competitive edge by continuously improving the quality of its existing products and developing 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 consistently creates high-quality beauty and skin care products by drawing on Dr. Tsai's more than 40 years of industry experience and rich knowledge and the different expertise and experiences of the experts whom the Group collaborates with on product development. 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 the six months ended 30 June 2013, nearly 200,000 sets/bottles (221,000 sets/bottles for the six months ended 30 June 2012) of NB-1 family products were sold with turnover amounting to HK\$76.7 million (HK\$93.1 million for the six months ended 30 June 2012), which accounted for more than one-third of the Group's total product sales recorded for the six months ended 30 June 2013.

## **Human Resources**

As at 30 June 2013, the Group had a total of 718 employees, of whom 596 were based in the PRC, 116 in Taiwan and 6 in other countries and regions. Total remuneration (excluding directors' emoluments) during the six months ended 30 June 2013 was approximately HK\$66.4 million (HK\$72.3 million for the six months ended 30 June 2012), including retirement benefit related costs of HK\$9.4 million (HK\$8.7 million for the six months ended 30 June 2012) and stock option expenses of HK\$0.6 million (HK\$14.0 million for the six months ended 30 June 2012). 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.

All remaining share options granted on 4 April 2011 were cancelled or lapsed during the period under review while the Group granted new stock options to certain key employees per announcement dated 8 April 2013 to subscribe for a maximum of 74,478,151 shares which will be vested in a ratio of 40%, 20%, 20% and 20% over a four-year period commencing from the date falling on publication of the audited financial results of the Group for the financial year 2014 and subject to the grantees achieving certain performance targets. This resulted in HK\$0.6 million of stock option expense for the six months ended 30 June 2013 (HK\$14.0 million for the six months ended 30 June 2012).

## **Capital Expenditures**

The Group's major capital expenditure of HK\$7.9 million during the six months ended 30 June 2013 which was mainly related to the upgrades of the IT infrastructure amounted to HK\$3.9 million, and renovation of its franchised spas amounted to HK\$3.0 million.

## **OUTLOOK**

After the 18th National People's Congress of the Chinese Communist Party, the government's plan for urbanization and household income growth should continue to fuel the long-term growth of China's domestic consumption. This development will be favourable to the consumer market. However, the results of the policy are uncertain in the short term.

In view of the escalating rental and labor costs in China, we will continue to pursue a prudent growth strategy and implement the following strategies so as to proactively strengthen our position as a leading skin care brand and spa operator in the Greater China Region.

- We will strengthen the training for our franchisees and focus on increasing the productivity of our existing franchisees so that they will develop into our major growth driver in the near term.
- We will enhance our operational efficiency by streamlining our organisational structure, implementing a more integrated go-to-market process and improving our cost-control measures.
- We will focus our marketing and promotional efforts on enabling a higher sell-through by our franchisees.

## **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 Corporate Governance Code and Corporate Governance Report (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 and Review of Interim Financial Statements**

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 2013 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. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2013 has also been reviewed by Deloitte Touche Tohmatsu, the auditor of the

Company, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, whose review report is disclosed in the interim report.

### **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**

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 contained in Appendix 14 of the Listing Rules for the period ended 30 June 2013, except for the following deviations:

#### **Code provision A.4.1**

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 had other overseas commitments, and was unable to present at the Company's 2013 annual general meeting held on 10 May 2013. 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 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 2013, 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 1.0 HK cents per share (2012: interim dividend of 2.0 HK cents per share). The interim dividend will be distributed on or around 19 November 2013 to shareholders whose names appear on the register of members of the Company as at the close of business on 11 October 2013.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 10 October 2013 to 11 October 2013, 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 9 October 2013.

## **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](http://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

Hong Kong, 16 August 2013

*As at the date of this announcement, the Board comprises Dr. Tsai Yen-Yu, Mr. Lee Ming-Ta and Dr. Su Chien-Cheng as executive directors, Mr. Patrick Thomas Siewert, Ms. Janine Junyuan Feng, Ms. Christina Shieu-Yeung Ng, Mr. Poon Yee Man Alwin and Dr. Su Sh-Hsyu 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.*