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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 2014

HIGHLIGHTS:

- Turnover increased by 22.1% to HK\$248.5 million.
- Net profit decreased by 17.8%.
- Interim dividend for the six months ended 30 June 2014 of HK\$0.021 per share (2013 interim dividend: HK\$0.01 per share).

RESULTS

The board of directors (the “**Board**”) of Natural Beauty Bio-Technology Limited (“**Natural Beauty**” or the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2014, together with the comparative figures for the first half of 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(With comparatives for the six months ended 30 June 2013)

		Six months ended 30 June	
		2014	2013
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	248,523	203,599
Cost of sales		(57,817)	(49,108)
Gross profit		190,706	154,491
Other income		9,561	12,631
Distribution and selling expenses		(85,462)	(85,997)
Administrative expenses		(44,168)	(38,911)
Other expenses		(15,823)	(5,615)
Profit before tax		54,814	36,599
Income tax expense	4	(25,101)	(441)
Profit for the period	5	29,713	36,158
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plan		–	(3,466)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		(2,215)	6,629
Total comprehensive income for the period		27,498	39,321
Profit (loss) for the period attributable to:			
Owners of the Company		29,713	36,161
Non-controlling interests		–	(3)
		29,713	36,158
Total comprehensive income (expense) attributable to:			
Owners of the Company		27,498	39,328
Non-controlling interests		–	(7)
		27,498	39,321
Earnings per share			
– Basic	7	HK1.48 cents	HK1.81 cents
– Diluted		HK1.48 cents	HK1.81 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

(With comparatives at 31 December 2013)

		At 30 June 2014 (unaudited) <i>HK\$'000</i>	At 31 December 2013 (audited) <i>HK\$'000</i>
Non-current assets			
Investment properties		5,988	5,963
Property, plant and equipment		246,462	257,218
Prepaid lease payments		9,241	9,453
Goodwill		28,188	28,375
Deposit paid for acquisition of land use right		12,593	12,692
Deferred tax assets		1,288	974
		<u>303,760</u>	<u>314,675</u>
Current assets			
Inventories		44,715	47,047
Trade and other receivables	8	83,287	112,624
Prepaid lease payments		298	312
Bank balances and cash		599,556	507,409
		<u>727,856</u>	<u>667,392</u>
Current liabilities			
Trade and other payables	9	199,514	154,510
Deferred income		8,078	7,779
Taxation payable		27,338	18,544
		<u>234,930</u>	<u>180,833</u>
Net current assets		<u>492,926</u>	<u>486,559</u>
Total assets less current liabilities		<u>796,686</u>	<u>801,234</u>
Non-current liabilities			
Retirement benefit obligations		13,030	12,976
		<u>783,656</u>	<u>788,258</u>
Capital and reserves			
Share capital		200,210	200,210
Reserves		583,446	588,048
Equity attributable to owners of the Company		<u>783,656</u>	<u>788,258</u>
Non-controlling interests		<u>–</u>	<u>–</u>
Total equity		<u><u>783,656</u></u>	<u><u>788,258</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

(With comparatives for the six months ended 30 June 2013 and as of 31 December 2013)

(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 “Hong Kong 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:

For the six months ended 30 June 2014

	PRC (unaudited) HK\$'000	Taiwan (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue from external customers	<u>201,841</u>	<u>44,354</u>	<u>2,328</u>	<u>248,523</u>
Segment profit (loss)	<u>42,535</u>	<u>13,091</u>	<u>917</u>	<u>56,543</u>
Unallocated corporate expenses				(8,193)
Unallocated income				<u>6,464</u>
Profit before tax				<u>54,814</u>

For the six months ended 30 June 2013

	PRC (unaudited) HK\$'000	Taiwan (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000
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>	<u>44,704</u>
Unallocated corporate expenses				(12,489)
Unallocated income				<u>4,384</u>
Profit before tax				<u>36,599</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:

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
Sales of goods	245,335	201,693
Service income	3,188	1,906
	<u>248,523</u>	<u>203,599</u>

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014 (unaudited) HK\$'000	2013 (unaudited) HK\$'000
The charge comprises:		
Taxation in PRC		
Current period	15,957	3,342
(Over) underprovision in prior years	5,008	(5,396)
	<u>20,965</u>	<u>(2,054)</u>
Taxation in Taiwan		
Current period	3,202	1,312
Underprovision in prior years	–	232
Withholding tax on dividend	1,226	–
	<u>4,428</u>	<u>1,544</u>
Deferred taxation		
Current period	(292)	951
	<u>25,101</u>	<u>441</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\$21,103,000 (2013: HK\$39,896,000) 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
2014 2013
(unaudited) (unaudited)
HK\$'000 **HK\$'000**

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

Depreciation of property, plant and equipment	19,514	19,380
Release of prepaid lease payments	149	153
Loss on disposal of property, plant and equipment	–	–
Total staff cost including share based payment expenses	66,437	69,088
Written off of property, plant and equipment	65	1,260
Allowance (reversal of allowance) on trade receivables	161	3,538
Allowance for other receivables	8,963	–
Allowance for obsolete inventories, included in cost of sales	2,591	1,783
Net exchange (gain) loss	2,018	(890)
Interest income on bank deposits	(6,464)	(3,974)
	<u> </u>	<u> </u>

6. DIVIDENDS

At the annual general meeting of the Company held on 16 May 2014, a final dividend of HK\$0.0163 per share in respect of the year ended 31 December 2013 (2013: HK\$0.0028 per share in respect of the year ended 31 December 2012) was declared to be payable to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to HK\$32,634,000 (2013: the aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$5,606,000).

Subsequent to the end of the current interim period, the Directors of the Company have determined that an interim dividend of HK\$0.021 per share (2013: HK\$0.01 per share) will be paid to the owners of the Company whose names appear in the Register of Members of the Company on 10 October 2014.

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\$29,713,000 for the six months ended 30 June 2014 (2013: HK\$36,161,000) and on the number of 2,002,100,932 (2013: 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 2013 and 2014.

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 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Trade receivables:		
Within 180 days	66,065	83,680
181 days to 365 days	82	–
	<u>66,147</u>	83,680
Prepayments	10,709	11,208
Other receivables	6,431	17,736
	<u>83,287</u>	<u>112,624</u>

9. TRADE AND OTHER PAYABLES

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 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Trade payables:		
Within 180 days	17,392	18,306
181 days to 365 days	83	1,087
Over 365 days	2,936	1,873
	<u>20,411</u>	21,266
Deposits from customers	75,037	58,176
Other tax payables	6,608	8,116
Accruals	46,085	54,935
Other payables	18,739	12,017
Dividend payable	32,634	–
	<u>199,514</u>	<u>154,510</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

	1H2014		1H2013		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
PRC	201,841	81.2%	161,060	79.1%	40,781	25.3%
Taiwan	44,354	17.8%	39,704	19.5%	4,650	11.7%
Others	2,328	0.9%	2,835	1.4%	(507)	-17.9%
Total	248,523	100.0%	203,599	100.0%	44,924	22.1%

For the six months ended 30 June 2014, turnover of the Group increased by 22.1% to HK\$248.5 million compared with HK\$203.6 million for the six months ended 30 June 2013. The rise was mainly due to an increase of HK\$43.6 million in product sales, which segment contributed to 98.7% of our total turnover, as a result of higher store productivity in PRC and Taiwan.

For the six months ended 30 June 2014, turnover in the PRC market increased by 25.3% from HK\$161.1 million for the six months ended 30 June 2013 to HK\$201.8 million for the same period this year. Turnover in Taiwan also increased by 11.7% to HK\$44.4 million compared with HK\$39.7 million for the corresponding period last year.

Sales from other regions, including Hong Kong, Macau and Malaysia, decreased by 17.9% to HK\$2.3 million for the six months ended 30 June 2014. Contribution from these regions remained at an insignificant level of just 0.9% of the Group's turnover.

The Group's overall gross profit margin improved from 75.9% for the six months ended 30 June 2013 to 76.7% for the six months ended 30 June 2014 due to an increase in the proportion of higher-margin products within our sales mix during the period under review.

Turnover by activities

	1H2014	1H2013	Changes	
	HK\$'000	HK\$'000	HK\$'000	%
Products				
PRC	199,879	160,379	39,500	24.6%
Taiwan	43,127	38,479	4,648	12.1%
Others	2,329	2,835	(506)	-17.8%
Total	245,335	201,693	43,642	21.6%
Services				
PRC	1,961	681	1,280	188.0%
Taiwan	1,227	1,225	2	0.2%
Total	3,188	1,906	1,282	67.3%

Turnover by activities	1H2014		1H2013		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Products	245,335	98.7%	201,693	99.1%	43,642	21.6%
Services	3,188	1.3%	1,906	0.9%	1,282	67.3%
Total	248,523	100.0%	203,599	100.0%	44,924	22.1%

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 2014 amounted to HK\$245.3 million, or 98.7% of the Group’s total revenue, representing an increase of HK\$43.6 million, or by 21.6%, when compared with sales of HK\$201.7 million or 99.1% of the Group’s total revenue for the six months ended 30 June 2013. The increase in product sales was mainly driven by the growth in such segment in the PRC market by 24.6% to HK\$199.9 million for the six months ended 30 June 2014 compared with HK\$160.4 million for the corresponding period last year.

Service income	1H2014		1H2013		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Training income	256	8.0%	110	5.8%	146	132.7%
SPA service income	2,932	92.0%	1,775	93.1%	1,157	65.2%
Others	0	0.0%	21	1.1%	(21)	-100.0%
Total	3,188	100.0%	1,906	100.0%	1,282	67.3%

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 was 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 that the franchisees derived from the spas covered their operating expenses such as rentals, salaries and utilities. During the six months ended 30 June 2014, service income increased from HK\$1.9 million to HK\$3.2 million, or by 67.3%, compared with the corresponding period last year.

Other income

Other income mainly comprised rental income from other properties, interest income and financial refunds of HK\$1.2 million, HK\$6.5 million and HK\$1.9 million respectively during the six months ended 30 June 2014. The amount of other income for the six months ended 30 June 2014 decreased by 24.3%, or HK\$3.1 million, to HK\$9.6 million, comparing with HK\$12.6 million for the six months ended 30 June 2013. The decrease was mainly due to a decrease in financial refunds of HK\$4.8 million for the six months ended 30 June 2014.

Distribution and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover decreased to 34.4% for the six months ended 30 June 2014 compared with 42.2% for the six months ended 30 June 2013. Total distribution and selling expenses decreased by HK\$0.5 million from HK\$86.0 million for the six months ended 30 June 2013 to HK\$85.5 million for the six months ended 30 June 2014. Advertising and promotion ("A&P") expenses decreased by HK\$2.2 million from HK\$15.3 million for the six months ended 30 June 2013 to HK\$13.1 million for the six months ended 30 June 2014, and the amount as a percentage of the Group's total turnover decreased from 7.5% for the six months ended 30 June 2013 to 5.3% for the six months ended 30 June 2014. Our focus in 2014 is mainly on supporting franchisees to increase sell-through activities via customer events, in-door salons or roadshows so that they can maintain a healthy inventory level. We will adjust allocations of A&P expenses according to our formulated strategies. Other key expenses include salaries of HK\$31.5 million, travel and entertainment expenses of HK\$3.3 million, depreciation charges of HK\$7.1 million as well as rentals of offices and sales counters of HK\$15.2 million for the six months ended 30 June 2014.

Total administrative expenses increased by HK\$5.3 million, or 13.5%, to HK\$44.2 million for the six months ended 30 June 2014. The increase in administrative expenses was mainly due to professional fees incurred for closing Hong Kong office, for outsourced corporate secretarial services and for lower dividend withholding tax application. Administrative expenses mainly comprised staff costs and retirement benefits (including non-cash share based payment) of HK\$13.8 million, legal and professional fees of HK\$7.9 million, depreciation charges of HK\$6.2 million and office and utilities expenses of HK\$3.8 million.

Other expenses

Other expenses increased by HK\$10.2 million, or 181.8%, from HK\$5.6 million for the six months ended 30 June 2013 to HK\$15.8 million for the six months ended 30 June 2014. Other expenses for the period mainly included related expenses of rental property of HK\$1.0 million, exchange loss of HK\$2.0 million, accruals of HK\$3.5 million for tax audit on the PRC tax affairs of a PRC subsidiary for the year 2012 and 2013, impairment of HK\$9.0 million against the other receivables and other expenses of HK\$0.3 million.

Profit before taxation

Taking into account the increase in gross profit, profit before tax increased by 49.8% from HK\$36.6 million for the six months ended 30 June 2013 to HK\$54.8 million for the six months ended 30 June 2014.

Taxation

Taxation expenses increased by HK\$24.7 million, from HK\$0.4 million for the six months ended 30 June 2013 to HK\$25.1 million for the six months ended 30 June 2014. The effective tax rate of the Group for the six months ended 30 June 2013 and 2014 was 1.2% and 45.8% respectively. The high effective tax rate for the six months ended 30 June 2014 was mainly due to (1) higher profit tax provision of HK\$14.6 million due to sales increase; (2) additional dividend withholding tax of HK\$1.2 million charged during the six months ended 30 June 2014; and (3) HK\$6.6 million underprovision of tax of a PRC subsidiary for the year 2012 and 2013.

Profit for the period

Profit for the period decreased by 17.8% from HK\$36.2 million for the six months ended 30 June 2013 to HK\$29.7 million for the six months ended 30 June 2014.

Liquidity and financial resources

Cash generated from operating activities for the six months ended 30 June 2014 was approximately HK\$96.4 million (HK\$31.6 million for the six months ended 30 June 2013). The increase was mainly due to changes in working capital (decrease in trade receivables and increase in deposit). As at 30 June 2014, the Group had bank balances and cash of approximately HK\$599.6 million (HK\$507.4 million as at 31 December 2013) with no external bank borrowing.

In terms of gearing, as at 31 December 2013 and 30 June 2014, 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 2013 and 30 June 2014 were 3.7 times and 3.1 times respectively. As at 30 June 2014, 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 2014, approximately 81.2% (79.1% as at 31 December 2013) of the Group's bank balances and cash was denominated in Renminbi, while approximately 14.6% (15.6% as at 31 December 2013) in New Taiwan Dollars. The remaining 4.2% (5.3% as at 31 December 2013) was denominated in US Dollars, Hong Kong Dollars, Macau Pataca and Malaysia Ringgit. 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	1H2014 HK\$'000	1H2013 HK\$'000	Changes HK\$'000	%
PRC				
Products	199,879	160,379	39,500	24.6%
Services	1,961	681	1,280	188.0%
PRC Total	201,840	161,060	40,780	25.3%
Taiwan				
Products	43,127	38,479	4,648	12.1%
Services	1,227	1,225	2	0.2%
Taiwan Total	44,354	39,704	4,650	11.7%
Others				
Products	2,329	2,835	(506)	-17.8%
Services	–	–	–	–
Others Total	2,329	2,835	(506)	-17.8%

The PRC Market

Despite slowdown in PRC's economic growth, the Group's turnover in the PRC market increased by 25.3% for the six months ended 30 June 2014 to HK\$201.8 million compared with HK\$161.1 million for the six months ended 30 June 2013. The increase was driven by increase in sales of products, mainly due to the pilot-testing of "direct own retail" management system to get better control over franchisees to drive higher store productivity. Gross margin on product sales increased from 78.8% for the six months ended 30 June 2013 to 81.2% for the period under review, as a result of more sales of higher-margin products such as NB-1, and lower promotion discount during the period under review.

The Taiwan Market

The Group's turnover in the Taiwan market also increased by 11.7% from HK\$39.7 million for the six months ended 30 June 2013 to HK\$44.4 million for the six months ended 30 June 2014 due to door-by-door management via franchisee differentiation to utilize company resources efficiently. Gross margin on product sales increased from 78.9% for the six months ended 30 June 2013 to 82% for the period under review, as a result of more sales of higher-margin products such as NB-1 and Bio, and lower promotion discount during the period under review.

Distribution channels

Store Number by Ownership As at 30 June 2014	Franchisee owned Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Total
PRC	1,058	1	1,059	0	14	14	1,073
Taiwan	266	3	269	0	0	0	269
Others	30	0	30	0	0	0	30
Total	1,354	4	1,358	0	14	14	1,372
Store Number by Ownership As at 30 June 2013	Franchisee owned Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Total
PRC	1,114	1	1,115	18	21	39	1,154
Taiwan	287	3	290	-	-	-	290
Others	30	-	30	-	-	-	30
Total	1,431	4	1,435	18	21	39	1,474
Average sales per store	1H2014 Average store*	1H2013 Average store*	1H2014 Average sales per store HK\$	1H2013 Average sales per store HK\$	Changes		%
PRC	1,101.5	1,163.5	183,000	138,000	45,000		32.6%
Taiwan	271.0	292.5	164,000	136,000	28,000		20.6%
Group total**	1,372.5	1,456.0	179,000	138,000	41,000		29.7%

* 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 2014, there were 1,358 spas and 14 concessionary counters. Of these, 1,354 were franchised spas, and 4 spas and 14 concessionary counters were directly operated by the Group. No concessionary counters were entrusted to third-party 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 spas, while skin care analysis is widely available at the concessionary counters in department stores.

Group-wide, a total of 11 new stores were opened and 72 stores were closed during the six months ended 30 June 2014.

Average sales per store for the six months ended 30 June 2014 increased from HK\$138,000 for the six months ended 30 June 2013 to HK\$179,000 for the six months ended 30 June 2014. Average sales per store in the PRC for the six months ended 30 June 2014 increased by 32.6% to HK\$183,000. In Taiwan, average sales per store increased by 20.6% to HK\$164,000 for the six months ended 30 June 2014.

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.

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 2014, 191,395 sets/bottles (nearly 200,000 sets/bottles for the six months ended 30 June 2013) of NB-1 family products were sold with turnover amounting to HK\$101.3 million (HK\$76.7 million for the six months ended 30 June 2013) and accounting for more than one-third of the Group's total product sales recorded for the six months ended 30 June 2014.

Human Resources

As at 30 June 2014, the Group had a total of 643 employees, of whom 532 were based in the PRC, 108 in Taiwan and 3 in other countries and regions. Total remuneration (excluding directors' emoluments) during the six months ended 30 June 2014 was approximately HK\$63.0 million (HK\$66.4 million for the six months ended 30 June 2013), including retirement benefit related costs of HK\$13.0 million (HK\$9.4 million for the six months ended 30 June 2013) and stock option expenses of HK\$0.5 million (HK\$0.6 million for the six months ended 30 June 2013). 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.

On 4 April 2014, the Company granted share options to certain key employees to subscribe for a maximum of 34,536,239 shares (please refer to the Company's announcement dated 4 April 2014 for details).

Capital Expenditures

The Group's major capital expenditure of HK\$10.4 million during the six months ended 30 June 2014 mainly related to the POS system upgrades amounting to HK\$3.4 million and skin test machine (Wood's machine) amounting to HK\$2.1 million, production equipment amounting to HK\$2.6 million and office renovation amounting to HK\$1.4 million.

OUTLOOK

Beauty and personal care maintained its strong current value growth in 2014, benefited by growing household income and rising awareness of personal appearance and wellbeing among Chinese consumers. Skin care, the largest category in value terms, also recorded robust growth.

With 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 our trainings provided to our franchisees and focus on increasing the productivity of our existing franchisees as our major growth driver in the near future.
- We will enhance our operational efficiency by streamlining our organizational 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 more 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 Executive Committee, the Remuneration Committee and the 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 Rules Governing the Listing of Securities (the “**Hong Kong Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). These committees are chaired by Non-Executive Directors.

Audit Committee and Review of Interim Financial Statements

The Audit Committee has adopted terms of reference (Audit Committee Charter) 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 2014 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 Hong Kong 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 2014 has also been reviewed by Messrs. 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 will be disclosed in the Company’s 2014 Interim Report.

Remuneration Committee

The Remuneration Committee has adopted terms of reference (Remuneration Committee Charter) which are in line with the code provisions of the Code on Corporate Governance. The main duties of the Remuneration Committee include determining the policy and structure for the remuneration of executive Directors and approving the terms of executive Directors’ service contracts, and determining or making recommendation to the Board on the Company’s remuneration packages of individual executive and non-executive Directors and senior management.

Nomination Committee

The Nomination Committee has adopted terms of reference (Nomination Committee Charter) 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, determining the policy for the nomination of Directors, reviewing the structure, size, composition and diversity of the Board and making recommendation to the Board on selection of candidates for directorships pursuant to the Board Diversity Policy. It also assesses the independence of independent non-executive Directors.

Executive Committee

The Executive Committee is primarily responsible for formulating business policies, making decisions on key business issues and policies, facilitating the approval of certain corporate actions and exercising the powers and authority delegated by the Board in respect of matters arising between regularly scheduled Board meetings, and to review financial, marketing, retail, operation and other business performance, as well as to review and approve annual budget and key performance indicators (KPIs) and track performance.

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 complied with all the code provisions set out in the Code on Corporate Governance contained in Appendix 14 of the Hong Kong Listing Rules throughout the six months ended 30 June 2014, except for the following deviations:

Code provision A.4.1

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Non-executive Directors, namely Mr. Patrick Thomas Siewert, Ms. Ng Shieu Yeing Christina, Ms. Feng Janine Junyuan and Mr. Poon Yee Man Alwin 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

Code provision E.1.2 stipulates that the chairman of the board of a listed issuer should attend the annual general meeting. Dr. Tsai Yen-Yu, the Chairperson of the Board, was unable to attend the Company's annual general meeting held on 16 May 2014 ("**2014 AGM**") due to other overseas commitments. The Board had arranged 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 business activities and operations of the Group, to attend and chair the 2014 AGM on behalf of Dr. Tsai Yen-Yu and to respond to shareholders' questions.

Two independent non-executive Directors, Mr. Francis Goutenmacher (member of the Audit, Remuneration, Executive and Nomination Committees) and Ms. Su-Mei Thompson (Chairperson of Remuneration Committee and member of Audit Committee and Nomination Committee) also attended the 2014 AGM.

Compliance with the Model Code

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Hong Kong Listing Rules. Having made specific enquiry with all Directors, all Directors have confirmed that the required standards of the Model Code have been complied with throughout the six months ended 30 June 2014 and to the date of this announcement.

At the board meeting held on 25 August 2014, the Board has adopted written guidelines (the "**Company's Guidelines**"), which are equally stringent as the Model Code, in respect of securities transactions by employees of the Company who are likely to be in possession of unpublished inside information of the Company pursuant to code provision A.6.4. No incident of non-compliance with the Model Code or the Company's Guidelines by the Company's relevant employees has been noted after making reasonable enquiry.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board of the Company has resolved to declare an interim dividend for the six months ended 30 June 2014 of HK\$0.021 per share (2013: interim dividend of HK\$0.01 per share). The interim dividend will be distributed on 14 November 2014 to shareholders whose names appear on the register of members of the Company as at the close of business on 10 October 2014.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 9 October 2014 to 10 October 2014, 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, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 8 October 2014.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

This interim results announcement is also published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.nblife.com/ir). The interim report for the six months ended 30 June 2014 of the Company containing all the information required by paragraph 37 of Appendix 16 of the Hong Kong 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
Natural Beauty Bio-Technology Limited
Tsai Yen-Yu
Chairperson

Hong Kong, 25 August 2014

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.