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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 2015

HIGHLIGHTS:

- Turnover increased by 6.7% to HK\$265,056,000.
- Net profit increased by 163.9% to HK\$78,399,000.
- Interim dividend for the six months ended 30 June 2015 of HK\$0.0392 per share (2014 interim dividend: HK\$0.021 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 2015, together with the comparative figures for the first half of 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015

(With comparatives for the six months ended 30 June 2014)

		Six months ended 30 June	
		2015	2014
	<i>Notes</i>	(unaudited)	(unaudited)
		HK\$'000	HK\$'000
Revenue	3	265,056	248,523
Cost of sales		(58,665)	(57,817)
Gross profit		206,391	190,706
Other income		14,030	9,561
Distribution and selling expenses		(83,874)	(85,462)
Administrative expenses		(41,195)	(44,168)
Other expenses		(828)	(15,823)
Profit before tax		94,524	54,814
Income tax expense	4	(16,125)	(25,101)
Profit for the period	5	78,399	29,713
Other comprehensive expense:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		(6,915)	(2,215)
Total comprehensive income for the period		71,484	27,498
Profit for the period attributable to:			
Owners of the Company		78,399	29,713
Total comprehensive income attributable to:			
Owners of the Company		71,484	27,498
Earnings per share	7		
Basic and diluted		HK3.92 cents	HK1.48 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

(With comparatives at 31 December 2014)

		At 30 June 2015 (unaudited) HK\$'000	At 31 December 2014 (audited) HK\$'000
Non-current assets			
Investment properties		6,068	5,915
Property, plant and equipment		214,911	223,708
Prepaid lease payments		9,017	9,102
Goodwill		28,460	28,272
Deposit paid for acquisition of land use right		12,737	12,637
Deferred tax assets		–	2,009
		<u>271,193</u>	<u>281,643</u>
Current assets			
Inventories		51,034	45,036
Trade and other receivables	8	83,971	67,458
Prepaid lease payments		313	310
Bank balances and cash		648,132	583,283
		<u>783,450</u>	<u>696,087</u>
Current liabilities			
Trade and other payables	9	141,300	153,314
Deferred income		7,626	7,577
Taxation payable		28,323	30,311
Dividend payable	6	63,827	–
		<u>241,076</u>	<u>191,202</u>
Net current assets		<u>542,374</u>	<u>504,885</u>
Total assets less current liabilities		<u>813,567</u>	<u>786,528</u>
Non-current liabilities			
Deferred tax liabilities		4,756	–
Retirement benefit obligations		12,949	12,622
		<u>795,862</u>	<u>773,906</u>
Capital and reserves			
Share capital		200,210	200,210
Reserves		595,652	573,696
Total equity		<u>795,862</u>	<u>773,906</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

(With comparatives for the six months ended 30 June 2014 and as of 31 December 2014)

(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 segments for the period under review:

Six months ended 30 June 2015

	The People’s Republic of China (“PRC”) (unaudited) HK\$’000	Taiwan (unaudited) HK\$’000	Others (unaudited) HK\$’000	Total (unaudited) HK\$’000
Revenue from external customers	<u>216,790</u>	<u>46,202</u>	<u>2,064</u>	<u>265,056</u>
Segment profit	<u>80,236</u>	<u>15,852</u>	<u>2,543</u>	<u>98,631</u>
Unallocated corporate expenses				(10,925)
Unallocated income				<u>6,818</u>
Profit before tax				<u>94,524</u>

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	<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>

Segment profit represents the profit earned 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	
	2015	2014
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Sales of goods	262,087	245,335
Service income	2,969	3,188
	<u>265,056</u>	<u>248,523</u>

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Taxation in PRC		
Current period	19,620	15,957
(Over) under provision in prior years	(2,188)	5,008
	<u>17,432</u>	<u>20,965</u>
Taxation in Taiwan and other jurisdictions		
Current period	5,219	3,202
Overprovision in prior years	(1,936)	–
Withholding tax on dividend	2,120	1,226
Tax refund of changing tax rate	(13,641)	–
	<u>(8,238)</u>	<u>4,428</u>
Deferred taxation		
Current period	6,931	(292)
	<u>16,125</u>	<u>25,101</u>

Under the Law of the People's Republic of China 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 statutory withholding tax rate for non-PRC resident is 10%. As the Company has obtained tax benefit approval from the in-charge tax bureau in 2014, which stipulates that the withholding tax rate for Natural Beauty China Holding Limited could be reduced to 5% for the dividend income from July 2011 to June 2017 and 7% for royalty fee from January 2012 to December 2014. Thus, the tax authority returned the prior years' over-paid taxes accordingly.

The decrease in current period taxation in Taiwan and other jurisdictions is because in March 2015, Natural Beauty China Holding Limited received the tax refund for dividend income and royalties amounted to approximately RMB10,785,000 (equivalent to approximately HK\$13,641,000).

4. INCOME TAX EXPENSE – continued

Pursuant to the relevant laws and regulations in the PRC and Taiwan, dividend withholding tax is imposed at a rate of 5% and 13% on dividends declared in respect of profits earned by PRC and Taiwan subsidiaries respectively that are received by non-local resident entities. Withholding tax on dividends of approximately HK\$2,120,000 (2014: HK\$1,226,000) for Taiwan were recognised.

The PRC tax bureau initiated a tax audit on the PRC tax affairs of a PRC subsidiary of the Group for the years 2012 and 2013.

The Directors of the Group are of the opinion that the tax audit exercise is still at a negotiation stage and no conclusion has been reached. Based on various discussions with the PRC tax bureau, the PRC subsidiary is now collecting relevant information in order to defend the tax position. The Directors opine that given the time involved in collecting such information, the PRC subsidiary might not be able to safeguard the filing position for the said years, and accordingly recognised an underprovision of tax amounting to HK\$6,639,000 during the six months ended 30 June 2014.

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	
	2015	2014
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	18,025	19,514
Release of prepaid lease payments	156	149
Total staff cost including share based payment expenses	63,650	66,437
Loss on disposal of property, plant and equipment	15	65
Allowance for trade receivables	1,911	161
Allowance for other receivables	–	8,963
Allowance for obsolete inventories, included in cost of sales	2,265	2,591
Net exchange (gain) loss	(1,501)	2,018
Interest income on bank deposits	(6,818)	(6,464)
	<u> </u>	<u> </u>

6. DIVIDENDS

At the annual general meeting of the Company held on 22 May 2015, a final dividend of HK\$0.03188 per share in respect of the year ended 31 December 2014 (2014: HK\$0.0163 per share in respect of the year ended 31 December 2013) was declared to be payable to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to HK\$63,827,000 and is recognised as dividend payable as of 30 June 2015 (2014: HK\$32,634,000 was declared and paid in the interim period).

Subsequent to the end of the current interim period, the Directors of the Company have determined that an interim dividend of HK\$0.0392 per share (2014: HK\$0.021 per share) will be paid to the owners of the Company whose names appear on the Register of Members of the Company on 15 September 2015.

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\$78,399,000 for the six months ended 30 June 2015 (2014: HK\$29,713,000) and on the number of 2,002,100,932 (2014: 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 2015 and 2014.

8. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from one to two months to its trade customers. The following is an analysis of trade receivables by age, 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 2015 (unaudited) <i>HK\$'000</i>	At 31 December 2014 (audited) <i>HK\$'000</i>
Trade receivables:		
Within 180 days	65,824	50,738
181 days to 365 days	–	–
Over 365 days	45	64
	<hr/>	<hr/>
Prepayments	6,489	9,481
Other receivables	11,613	7,175
	<hr/>	<hr/>
	83,971	67,458
	<hr/> <hr/>	<hr/> <hr/>

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 30 June 2015 (unaudited) <i>HK\$'000</i>	At 31 December 2014 (audited) <i>HK\$'000</i>
Trade payables:		
Within 180 days	19,396	16,209
181 days to 365 days	–	89
Over 365 days	1,854	2,279
	<hr/>	<hr/>
Deposits from customers	21,250	18,577
Other tax payables	42,679	43,576
Accruals	10,183	13,442
Other payables	50,938	62,841
	<hr/>	<hr/>
	16,250	14,878
	<hr/>	<hr/>
	141,300	153,314
	<hr/> <hr/>	<hr/> <hr/>

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	1H 2015		1H 2014		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
PRC	216,790	81.8%	201,841	81.2%	14,949	7.4%
Taiwan	46,202	17.4%	44,354	17.8%	1,848	4.2%
Others	2,064	0.8%	2,328	1%	(264)	-11.3%
Total	265,056	100.0%	248,523	100.0%	16,533	6.7%

During the six months ended 30 June 2015, turnover of the Group increased by 6.7% to HK\$265.1 million compared with HK\$248.5 million for the six months ended 30 June 2014. The rise was mainly due to an increase of HK\$16.8 million in product sales, which segment contributed to 98.9% of our total turnover as a result of higher store productivity in PRC and Taiwan.

For the six months ended 30 June 2015, turnover in the PRC market increased by 7.4% from HK\$201.8 million for the six months ended 30 June 2014 to HK\$216.8 million for the same period this year. Turnover in Taiwan also increased by 4.2% to HK\$46.2 million compared with HK\$44.4 million for the corresponding period last year.

Sales from other regions, including Hong Kong, Macau and Malaysia, decreased by 11.3% to HK\$2.1 million for the six months ended 30 June 2015. Contribution from these regions remained at an insignificant level of just 0.8% of the Group's total turnover.

The Group's overall gross profit margin improved from 76.7% for the six months ended 30 June 2014 to 77.9% for the six months ended 30 June 2015 due to an increase in the proportion of higher-margin products within our sales mix during the period under review.

Turnover by activities	1H 2015	1H 2014	Changes	
	HK\$'000	HK\$'000	HK\$'000	%
Products				
PRC	215,184	199,880	15,304	7.7%
Taiwan	44,839	43,127	1,712	4.0%
Others	2,064	2,328	(264)	-11.3%
Total	262,087	245,335	16,752	6.8%
Services				
PRC	1,606	1,961	(355)	-18.1%
Taiwan	1,363	1,227	136	11.1%
Total	2,969	3,188	(219)	-6.9%

Turnover by activities	1H 2015		1H 2014		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Products	262,087	98.9%	245,335	98.7%	16,752	6.8%
Services	2,969	1.1%	3,188	1.3%	(219)	-6.9%
Total	265,056	100.0%	248,523	100.0%	16,533	6.7%

Products

The Group is principally engaged in the manufacturing and sales 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 2015 amounted to HK\$262.1 million, or 98.9% of the Group’s total revenue, representing an increase of HK\$16.8 million, or by 6.8%, when compared with sales of HK\$245.3 million, or 98.7% of the Group’s total revenue for the six months ended 30 June 2014. The increase in product sales was mainly driven by the growth in such segment in the PRC market by 7.7% to HK\$215.2 million for the six months ended 30 June 2015 compared with HK\$199.9 million for the corresponding period last year.

Service income	1H 2015		1H 2014		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Training income	157	5.3%	156	4.9%	1	0.6%
SPA service income	2,562	86.3%	2,219	69.6%	343	15.5%
Others	250	8.4%	813	25.5%	(563)	-69.2%
Total	2,969	100.0%	3,188	100.0%	(219)	-6.9%

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. During the six months ended 30 June 2015, service income decreased from HK\$3.2 million to HK\$3.0 million, or by 6.9%, compared with the corresponding period last year.

Other income

Other income increased by HK\$4.5 million, or 46.7%, from HK\$9.5 million for the six months ended 30 June 2014 to HK\$14.0 million for the six months ended 30 June 2015. Other income mainly comprised rental income from other properties, interest income and financial refunds of HK\$1.2 million, HK\$6.8 million and HK\$4.2 million respectively during the six months ended 30 June 2015.

Distribution and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover decreased to 31.6% for the six months ended 30 June 2015 compared with 34.4% for the six months ended 30 June 2014. Total distribution and selling expenses decreased by HK\$1.6 million from HK\$85.5 million for the six months ended 30 June 2014 to HK\$83.9 million for the six months ended 30 June 2015. Advertising and promotion ("A&P") expenses decreased by HK\$0.5 million from HK\$13.1 million for the six months ended 30 June 2014 to HK\$12.6 million for the six months ended 30 June 2015, and the amount as a percentage of the Group's total turnover decreased from 5.3% for the six months ended 30 June 2014 to 4.8% for the six months ended 30 June 2015. Our focus in 2015 is mainly on supporting franchisees to increase sell-through activities via customer events, indoor 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\$30.0 million, travel and entertainment expenses of HK\$3.7 million, depreciation charges of HK\$7.3 million as well as rentals of offices and sales counters of HK\$12.9 million for the six months ended 30 June 2015.

Total administrative expenses decreased by HK\$3.0 million, or 6.7%, to HK\$41.2 million for the six months ended 30 June 2015 compared with HK\$44.2 million for the six months ended 30 June 2014. Administrative expenses mainly comprised staff costs and retirement benefits (including non-cash share based payment) of HK\$13.3 million, legal and professional fees of HK\$6.2 million, depreciation charges of HK\$5.7 million and office and utilities expenses of HK\$3.6 million.

Other expenses

Other expenses decreased by HK\$15.0 million from HK\$15.8 million for the six months ended 30 June 2014 to HK\$0.8 million for the six months ended 30 June 2015. Other expenses for the six months ended 30 June 2014 mainly comprised accruals of HK\$3.5 million for tax audit on the PRC tax affairs of a PRC subsidiary for the years 2012 and 2013, and impairment of HK\$9.0 million against the other receivables for the six months ended 30 June 2014. As there are no such accruals or impairment for the six months ended 30 June 2015, other expenses for the period under review decreased.

Profit before tax

Taking into account the higher gross profit, profit before tax increased by 72.4% from HK\$54.8 million for the six months ended 30 June 2014 to HK\$94.5 million for the six months ended 30 June 2015.

Taxation

Taxation expenses decreased by HK\$9.0 million from HK\$25.1 million for the six months ended 30 June 2014 to HK\$16.1 million for the six months ended 30 June 2015. The effective tax rate of the Group for the six months ended 30 June 2014 and 2015 were 45.8% and 17.1% respectively. The lower effective tax rate for the six months ended 30 June 2015 was mainly due to: (1) HK\$13.6 million tax refund received for 2009/2010 dividend income and 2011 royalty fee which were paid in 2011 and 2012 due to lower withholding tax rate approved by PRC tax bureau during the six months ended 30 June 2015; and (2) HK\$6.6 million underprovision of tax of a PRC subsidiary for the years 2012 and 2013 during the six months ended 30 June 2014.

Profit for the period

Profit for the period increased by 163.9% from HK\$29.7 million for the six months ended 30 June 2014 to HK\$78.4 million for the six months ended 30 June 2015.

Liquidity and financial resources

Cash generated from operating activities for the six months ended 30 June 2015 was approximately HK\$59.8 million (HK\$96.3 million for the six months ended 30 June 2014). The decline was mainly due to changes in working capital (increase in trade receivables and decrease in deposit). As at 30 June 2015, the Group had bank balances and cash of approximately HK\$648.1 million (HK\$583.3 million as at 31 December 2014) with no external bank borrowing.

In terms of gearing, as at 31 December 2014 and 30 June 2015, 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 2014 and 30 June 2015 were 3.6 times and 3.2 times respectively. As at 30 June 2015, 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 2015, approximately 86.1% (87.1% as at 31 December 2014) of the Group's bank balances and cash was denominated in Renminbi, while approximately 10.2% (11.8% as at 31 December 2014) in New Taiwan Dollars. The remaining 3.7% (1.1% as at 31 December 2014) was denominated in US Dollars, Hong Kong Dollars, 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	1H 2015 HK\$'000	1H 2014 HK\$'000	Changes HK\$'000	%
PRC				
Products	215,184	199,880	15,304	7.7%
Services	1,606	1,961	(355)	-18.1%
PRC Total	216,790	201,841	14,949	7.4%
Taiwan				
Products	44,839	43,127	1,712	4.0%
Services	1,363	1,227	136	11.1%
Taiwan Total	46,202	44,354	1,848	4.2%
Others				
Products	2,064	2,328	(264)	-11.3%
Services	–	–	–	–
Others Total	2,064	2,328	(264)	-11.3%

The PRC Market

The Group's turnover in the PRC market increased by 7.4% for the six months ended 30 June 2015 to HK\$216.8 million compared with HK\$201.8 million for the six months ended 30 June 2014. The increase was driven by increase in sales of products, mainly due to the continuous expansion in the second phase of "direct own retail" management system to get better control over franchisees so as to drive higher store productivity. Gross margin on product sales increased from 80.7% for the six months ended 30 June 2014 to 81.3% for the period under review, as a result of more sales of higher-margin products such as NB-1 and Bio during the period under review.

The Taiwan Market

The Group's turnover in the Taiwan market also increased by 4.2% from HK\$44.4 million for the six months ended 30 June 2014 to HK\$46.2 million for the six months ended 30 June 2015 due to the adoption of door-by-door management via franchisee differentiation to utilize company resources efficiently. Gross margin on product sales maintained at 80.0% for the period under review compared with 80.5% for the six months ended 30 June 2014.

Distribution channels

Store Number by Ownership	Franchisee owned Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Total
As at 30 June 2015							
PRC	807	1	808	0	14	14	822
Taiwan	257	3	260	0	0	0	260
Others	30	0	30	0	0	0	30
Total	1,094	4	1,098	0	14	14	1,112

Store Number by Ownership	Franchisee owned Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Total
As at 30 June 2014							
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

Average sales per store	1H 2015 Average store*	1H 2014 Average store*	1H 2015 Average sales per store HK\$	1H 2014 Average sales per store HK\$	Changes HK\$	%
PRC	955.0	1,101.5	227,000	183,000	44,000	24.0%
Taiwan	260.0	271.0	178,000	164,000	14,000	8.5%
Group total **	1,215.0	1,372.5	216,000	179,000	37,000	20.7%

* 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. 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.

As at 30 June 2015, there were 1,098 spas and 14 concessionary counters. Of these, 1,094 were franchised spas, 4 spas and 14 concessionary counters were directly operated by the Group. In order to rationalize channels, we closed 277 franchised spas which refused to fulfill 2015 contract. No concessionary counters were entrusted to third party operators.

Group-wide, a total of 11 new stores were opened and 277 stores were closed during the six months ended 30 June 2015.

Average sales per store increased from HK\$179,000 for the six months ended 30 June 2014 to HK\$216,000 for the six months ended 30 June 2015. Average sales per store in the PRC for the six months ended 30 June 2015 increased by 24.0% to HK\$227,000. In Taiwan, average sales per store increased by 8.5% to HK\$178,000 for the six months ended 30 June 2015.

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 bio-technology 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

During the six months ended 30 June 2015, the Group’s flagship NB-1 product family presents strong growth. NB-1 branded products include 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 2015, nearly 224,873 sets/bottles (growth rate at 17%; 191,395 sets/bottles for the six months ended 30 June 2014) of NB-1 family products were sold with turnover amounting to HK\$114.2 million (HK\$101.3 million for the six months ended 30 June 2014) and accounting for over 40% of the Group’s total product sales recorded for the six months ended 30 June 2015.

Human Resources

As at 30 June 2015, the Group had a total of 609 employees, of whom 498 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 2015 was approximately HK\$60.4 million (HK\$63.0 million for the six months ended 30 June 2014), including retirement benefit related costs of HK\$7.3 million (HK\$8.6 million for the six months ended 30 June 2014) and stock option expenses of HK\$0.5 million (HK\$0.5 million for the six months ended 30 June 2014). 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 31 March 2015, the Company granted share options to certain key employees to subscribe for a maximum of 3,500,000 shares (please refer to the Company's announcement dated 31 March 2015 for details).

Capital Expenditures

The Group's major capital expenditure of HK\$6.3 million during the six months ended 30 June 2015 mainly related to the POS system upgrades amounting to HK\$1.2 million and skin test machine (Wood's machine, Iris and PC device) amounting to HK\$1.6 million and IT infrastructure amounting to HK\$0.8 million, production equipment amounting to HK\$1.0 million and office renovation amounting to HK\$1.1 million.

OUTLOOK

Although affected by weakening momentum in economic growth in China, growing household incomes and increasing pursuit of personal well-being have led to healthy acceleration of sales in beauty and personal care market. Beauty and personal care market in China is expected to enjoy a healthy Compound Annual Growth Rate in value sales over the next few years.

In view of increasingly ferocious competition in the beauty and personal care market, 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 expand “direct own retail” management system to help our franchisees to increase the productivity as our major growth driver in the near future and effectively allocate management and marketing resources by classes.
- We will build Natural Beauty Business School to provide systematic training to our franchisees, including professional skills and store management to provide better service to customers.
- We will focus on trade marketing to drive sell-through and recruit new consumers and continue to drive celebrity influence to consumer level.

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.

In view of the recent amendments to the Code on Corporate Governance effective for the accounting period beginning on 1 January 2016, the Company has adopted a revised Audit Committee Charter on 27 August 2015 in order to comply with certain changes relating to the risk management and internal control section of the Code on Corporate Governance.

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 condensed consolidated financial statements of the Company for the six months ended 30 June 2015 have been reviewed by the audit committee which 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 2015 have also been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditors 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 2015 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 recommendations 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 recommendations 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 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 fully complied with all the code provisions set out in the Code on Corporate Governance throughout the six months ended 30 June 2015, 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, Mr. Gregory Michael ZELUCK, Ms. NG Shieu Yeing Christina (resigned on 11 August 2015), Mr. POON Yee Man Alwin (resigned on 11 August 2015), Ms. GONG Zhizhi (appointed on 11 August 2015) and Mr. CHANG Hsiuguo (appointed on 11 August 2015) 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 22 May 2015 ("2015 AGM") due to other overseas commitments. 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 business activities and operations of the Group, to attend and chair the 2015 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 the remuneration committee and member of the audit and nomination committees) also attended the 2015 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 standard 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 standard of the Model Code have been complied with throughout the six months ended 30 June 2015 and up to the date of this announcement.

The Company has adopted written guidelines (the "**Company's Guidelines**"), which are equally stringent as the Model Code, in respect of securities transactions by relevant 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 2015, 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 2015 of HK\$0.0392 per share (2014: interim dividend of HK\$0.021 per share). The interim dividend will be distributed on Wednesday, 14 October 2015 to shareholders whose names appear on the register of members of the Company as at the close of business on Tuesday, 15 September 2015.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of shareholders who qualify for the interim dividend, the Register of Members of the Company will be closed from Monday, 14 September 2015 to Tuesday, 15 September 2015, 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 Friday, 11 September 2015.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S AND THE COMPANY'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 2015 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, 27 August 2015

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, Dr. Su Sh-Hsyu, Mr. Gregory Michael Zeluck, Ms. Gong Zhizhi and Mr. Chang Hsiuguo 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.