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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 2017

HIGHLIGHTS:

- Turnover decreased by 23.6% to HK\$183,600,000.
- Net profit decreased by 53.7% to HK\$38,400,000.
- Interim dividend for the six months ended 30 June 2017 of HK\$0.0171 per share (2016 interim dividend: HK\$0.041 per share) and special interim dividend of HK\$0.0054 per share (2016 special interim dividend: HK\$0.025 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 2017, together with the comparative figures for the first half of 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(With comparatives for the six months ended 30 June 2016)

		Six months ended 30 June	
		2017	2016
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	183,613	240,255
Cost of sales		(48,613)	(57,517)
Gross profit		135,000	182,738
Other income and other gains		7,544	26,001
Distribution and selling expenses		(47,080)	(55,920)
Administrative expenses		(31,594)	(33,633)
Other expenses and other losses		(9,227)	(7,442)
Profit before tax		54,643	111,744
Income tax expense	4	(16,279)	(28,801)
Profit for the period	5	38,364	82,943
Other comprehensive expense:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		26,612	(9,749)
Total comprehensive income for the period		64,976	73,194
Profit for the period attributable to:			
Owners of the Company		38,364	82,943
Total comprehensive income attributable to:			
Owners of the Company		64,976	73,194
Earnings per share	7		
Basic and diluted		HK1.92 cents	HK4.14 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

(With comparatives at 31 December 2016)

		At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Non-current assets			
Investment properties		7,694	7,196
Property, plant and equipment		176,419	173,542
Prepaid lease payments		49,222	48,296
Goodwill		26,166	25,510
Pledged bank deposits		–	1,706
Deferred tax assets		5,043	–
		<u>264,544</u>	<u>256,250</u>
Current assets			
Inventories		75,092	49,842
Trade and other receivables	8	116,770	84,628
Prepaid lease payments		1,162	1,127
Pledged bank deposits		5,277	1,706
Bank balances and cash		373,045	428,633
		<u>571,346</u>	<u>565,936</u>
Current liabilities			
Trade and other payables	9	90,218	132,198
Deferred income		6,163	6,223
Taxation payable		15,475	24,305
Dividend payable	6	115,521	–
		<u>227,377</u>	<u>162,726</u>
Net current assets		<u>343,969</u>	403,210
Total assets less current liabilities		<u>608,513</u>	659,460

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
<i>Notes</i>		
Non-current liabilities		
Deferred tax liabilities	–	686
Retirement benefit obligations	<u>4,385</u>	<u>4,101</u>
	<u>604,128</u>	<u>654,673</u>
Capital and reserves		
Share capital	200,210	200,210
Reserves	<u>403,918</u>	<u>454,463</u>
Total equity	<u>604,128</u>	<u>654,673</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(With comparatives for the six months ended 30 June 2016 and as of 31 December 2016)

(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 segments for the period under review:

Six months ended 30 June 2017

	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>145,179</u>	<u>37,141</u>	<u>1,293</u>	<u>183,613</u>
Segment profit	<u>49,216</u>	<u>7,402</u>	<u>928</u>	57,546
Unallocated corporate expenses				(5,848)
Unallocated income				<u>2,945</u>
Profit before tax				<u>54,643</u>

2. SEGMENT INFORMATION – continued

Segment revenues and results – continued

Six months ended 30 June 2016

	PRC (unaudited) HK\$'000	Taiwan (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue from external customers	<u>194,431</u>	<u>44,378</u>	<u>1,446</u>	<u>240,255</u>
Segment profit (loss)	<u>98,338</u>	<u>16,459</u>	<u>(4,064)</u>	110,733
Unallocated corporate expenses				(2,645)
Unallocated income				<u>3,656</u>
Profit before tax				<u>111,744</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	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Sales of goods	180,933	237,659
Service income	2,680	2,596
	<u>183,613</u>	<u>240,255</u>

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Taxation in PRC		
Current period	9,969	19,734
Withholding tax on dividends	5,039	–
	<hr/> 15,008 <hr/>	<hr/> 19,734 <hr/>
Taxation in Taiwan and other jurisdictions		
Current period	2,319	5,320
Overprovision in prior years	(332)	(1,926)
Withholding tax on dividends	5,305	3,621
	<hr/> 7,292 <hr/>	<hr/> 7,015 <hr/>
Deferred taxation		
Current period	(6,021)	2,052
	<hr/> 16,279 <hr/>	<hr/> 28,801 <hr/>

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 stipulate 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 June 2017.

Pursuant to the relevant laws and regulations in the PRC and Taiwan, dividend withholding tax is imposed at a rate of 5% and 20% 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\$5,039,000 (2016: Nil) and HK\$5,305,000 (2016: HK\$3,621,000) for PRC and Taiwan were recognised respectively.

4. INCOME TAX EXPENSE – continued

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	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	10,126	11,462
Release of prepaid lease payments	571	600
Total staff cost including share based payment expenses	54,087	55,569
Loss on disposal of property, plant and equipment	159	1,646
Allowance for trade receivables	5,913	1,016
Allowance for obsolete inventories, included in cost of sales	2,022	1,582
Exchange loss	2,336	4,511
Compensation income arising from termination of a tenancy agreement	–	(19,097)
Interest income on bank deposits	(2,945)	(3,656)

6. DIVIDENDS

At the annual general meeting of the Company held on 25 May 2017, a final dividend of HK\$0.0327 per share and a special final dividend of HK\$0.025 per share in respect of the year ended 31 December 2016 (2016: a final dividend of HK\$0.0292 per share in respect of the year ended 31 December 2015) was declared to be payable to the owners of the Company. The aggregate amount of the final dividend and special final dividend declared in the interim period amounted approximately to HK\$115,521,223 and is recognised as dividend payable as of 30 June 2017 (2016: HK\$58,461,000 was recognised as dividend payable in the interim period).

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\$38,364,000 for the six months ended 30 June 2017 (2016: HK\$82,943,000) and on the number of 2,002,100,932 (2016: 2,002,100,932) ordinary shares of the Company in issue during the period.

8. TRADE AND OTHER RECEIVABLES

The Group allows a credit period for 90 days (2016: 30 days) to its trade customers. The aging analysis of trade receivables presented based on the invoice date at the end of reporting period is as follows:

	At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Trade receivables:		
Within credit period	63,982	57,218
Credit period – 180 days	13,408	15,754
Over 180 days	30,935	1,477
Less: Allowance for doubtful debts	(7,390)	(1,477)
	<u>100,935</u>	<u>72,972</u>
Prepayments	9,250	6,063
Other receivables	6,585	5,593
	<u>116,770</u>	<u>84,628</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 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
Trade payables:		
Within 90 days	22,420	20,221
91 days to 365 days	385	215
Over 365 days	106	444
	<u>22,911</u>	<u>20,880</u>
Deposits from customers	26,164	26,901
Other tax payables	7,018	25,654
Accruals	24,972	48,914
Other payables	9,153	9,849
	<u>90,218</u>	<u>132,198</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	1H 2017		1H 2016		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
The People's Republic of China ("PRC")	145,179	79.1%	194,431	80.9%	(49,252)	-25.3%
Taiwan	37,141	20.2%	44,378	18.5%	(7,237)	-16.3%
Others	1,293	0.7%	1,446	0.6%	(153)	-10.6%
Total	<u>183,613</u>	<u>100.0%</u>	<u>240,255</u>	<u>100.0%</u>	<u>(56,642)</u>	<u>-23.6%</u>

During the six months ended 30 June 2017, turnover of the Group decreased by 23.6% to HK\$183.6 million compared with HK\$240.3 million for the six months ended 30 June 2016. The decline was mainly due to a decrease of HK\$56.7 million in product sales, such segment contributed to 98.5%.

For the six months ended 30 June 2017, turnover in the PRC market decreased by 25.3% from HK\$194.4 million for the six months ended 30 June 2016 to HK\$145.2 million for the six months ended 30 June 2017, and also turnover in the Taiwan decreased by 16.3% to HK\$37.1 million compared with HK\$44.4 million for the six months ended 30 June 2016.

Sales from other regions, including Hong Kong, Macau and Malaysia, decreased by 10.6% to HK\$1.3 million for the six months ended 30 June 2017. Contribution from these regions remained at an insignificant level of just 0.7% of the Group's turnover.

The Group's overall gross profit margin declined from 76.1% for the six months ended 30 June 2016 to 73.5% for the six months ended 30 June 2017 mainly due to the sales of high-value and high-profit-margin products declined during the period under review.

Turnover by activities	1H 2017 HK\$'000	1H 2016 HK\$'000	Changes	
			HK\$'000	%
Products				
PRC	143,788	193,204	(49,416)	-25.6%
Taiwan	35,852	43,009	(7,157)	-16.6%
Others	1,293	1,446	(153)	-10.6%
Total	180,933	237,659	(56,726)	-23.9%
Services				
PRC	1,391	1,227	164	13.4%
Taiwan	1,289	1,369	(80)	-5.8%
Total	2,680	2,596	84	3.2%

Turnover by activities	1H 2017		1H 2016		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Products	180,933	98.5%	237,659	98.9%	(56,726)	-23.9%
Services	2,680	1.5%	2,596	1.1%	84	3.2%
Total	183,613	100.0%	240,255	100.0%	(56,642)	-23.6%

Products

The Group is principally engaged in 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. Product sales are the Group’s key revenue source and primarily come from franchised spas, self-owned spas and concessionary counters at department stores. Product sales for the six months ended 30 June 2017 amounted to HK\$180.9 million, or 98.5% of the Group’s total revenue, representing a decrease of HK\$56.7 million or by 23.9% when compared with sales of HK\$237.7 million for the six months ended 30 June 2016. The decrease in product sales was mainly driven by the decrease in turnover in such segment in the PRC market by 25.6% to HK\$143.8 million for the six months ended 30 June 2017 compared with HK\$193.2 million for the corresponding period last year.

Service income	1H 2017		1H 2016		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Training income	203	7.6%	194	7.5%	9	4.6%
SPA service income	2,251	84.0%	2,364	91.1%	(113)	-4.8%
Others	226	8.4%	38	1.5%	188	494.7%
Total	2,680	100.0%	2,596	100.0%	84	3.2%

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 2017, service income increased by 3.2% to HK\$2.7 million compared with approximately HK\$2.6 million for the corresponding period last year.

Other income and other gains

Other income and other gains decreased by HK\$18.5 million or 71.0% from HK\$26.0 million for the six months ended 30 June 2017 to HK\$7.5 million, mainly due to that a PRC subsidiary received the compensation fee of HK\$19.1 million for the six months ended 30 June 2016. Other income and other gains mainly comprised rental income from other properties, interest income, financial refunds of HK\$1.0 million, HK\$2.9 million, HK\$1.2 million during the six months ended 30 June 2017.

Distribution and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover increased to 25.7% for the six months ended 30 June 2017 compared with 23.3% for the six months ended 30 June 2016. However, the distribution and selling expenses decreased by HK\$8.8 million from HK\$55.9 million for the six months ended 30 June 2016 to HK\$47.1 million for the six months ended 30 June 2017. Incentive trip/dealer meeting expenses decreased by HK\$3.4 million from HK\$7.7 million for the six months ended 30 June 2016 to HK\$4.3 million for the six months ended 30 June 2017. Other key expenses included salaries of HK\$21.5 million, travel and entertainment expenses of HK\$2.8 million, depreciation charges of HK\$2.0 million as well as rentals of offices and sales counters of HK\$7.1 million for the six months ended 30 June 2017.

Total administrative expenses decreased by HK\$2.0 million, or 6.0%, to HK\$31.6 million for the six months ended 30 June 2017 compared with HK\$33.6 million for the six months ended 30 June 2016. Administrative expenses mainly comprised of staff costs and retirement benefits of HK\$11.3 million, legal and professional fee of HK\$4.1 million, depreciation charges of HK\$3.9 million and office and utility expenses of HK\$2.6 million.

Other expenses and other losses

Other expenses and other losses increased by HK\$1.8 million, from HK\$7.4 million for the six months ended 30 June 2016 to HK\$9.2 million for the six months ended 30 June 2017. Other expenses and other losses for the six months ended 30 June 2017 mainly included the provision for doubtful debts expense of HK\$5.9 million, loss of HK\$0.2 million on disposal of property, exchange loss of HK\$2.3 million and related expenses of rental property of HK\$0.7 million.

Profit before tax

Taking into account the decrease in gross profit and other income, profit before tax decreased by 51.1% from HK\$111.7 million for the six months ended 30 June 2016 to HK\$54.6 million for the six months ended 30 June 2017.

Taxation

Taxation expenses decreased by HK\$12.5 million to HK\$16.3 million for the six months ended 30 June 2017 compared with HK\$28.8 million for the six months ended 30 June 2016. The effective tax rate of the Group for the six months ended 30 June 2016 and 2017 was 25.8% and 29.8% respectively. The lower effective tax rate for the six months ended 30 June 2016 was mainly due to the compensation fee for a PRC subsidiary of HK\$19.1 million for the six months ended 30 June 2016 and it was exempted for tax.

Profit for the year

Profit for the year decreased by 53.7% from HK\$83.0 million for the six months ended 30 June 2016 to HK\$38.4 million for the six months ended 30 June 2017.

Liquidity and financial resources

Cash (used in) generated from operating activities for the six months ended 30 June 2017 was approximately HK\$-65.0 million (HK\$61.0 million for the six months ended 30 June 2016). As at 30 June 2017, the Group had bank balances and cash of approximately HK\$373.0 million (HK\$428.6 million as at 31 December 2016) with no external bank borrowing.

In terms of gearing, as at 31 December 2016 and 30 June 2017, 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 2016 and 30 June 2017 were 3.5 times and 2.5 times respectively. As at 30 June 2017, 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 2017, approximately 77.4% (78.4% as at 31 December 2016) of the Group's bank balances and cash was denominated in Renminbi, while approximately 12.2% (17.0% as 31 December 2016) in New Taiwan Dollars. The remaining 10.4% (4.6% as 31 December 2016) was denominated in US Dollars, Hong Kong Dollars and Ringgit Malaysia. The Group continues to adopt a conservative approach in its foreign exchange exposure management. It reviews its foreign exchange risks periodically and uses derivatives to hedge against such risks when necessary.

BUSINESS REVIEW

Turnover by geographic region	1H 2017 HK\$'000	1H 2016 HK\$'000	Changes HK\$'000	%
PRC				
Products	143,788	193,204	(49,416)	-25.6%
Services	1,391	1,227	164	13.4%
PRC Total	145,179	194,431	(49,252)	-25.3%
Taiwan				
Products	35,852	43,009	(7,157)	-16.6%
Services	1,289	1,369	(80)	-5.8%
Taiwan Total	37,141	44,378	(7,237)	-16.3%
Others				
Products	1,293	1,446	(153)	-10.6%
Services	–	–	–	–
Others Total	1,293	1,446	(153)	-10.6%

The PRC Market

The Group's turnover in the PRC market decreased by 25.3% for the six months 30 June 2017 to HK\$145.2 million compared with HK\$194.4 million for the six months 30 June 2016. The decrease was mainly due to the decreasing in the sales of products. Gross margin on product sales decreased from 78.6% for the six months 30 June 2016 to 76.8% for the period under review, as a result of the sales of high-value and high-profit margin product declined during the period under review.

The Taiwan Market

The Group's turnover in the Taiwan market decreased by 16.3% from HK\$44.4 million for the six months 30 June 2016 to HK\$37.1 million for the six months 30 June 2017 due to the decreasing in the sales of products. Gross margin decreased from 80.5% for the six months 30 June 2016 to 76.9% for the six months 30 June 2017, as a result of the sales of high-value and high-profit margin products declined during the period under review.

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 2017							
PRC	787	1	788	0	12	12	800
Taiwan	253	3	256	0	0	0	256
Others	30	0	30	0	0	0	30
Total	1,070	4	1,074	0	12	12	1,086

Store Number by Ownership	Franchisee owned Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Total
As at 30 June 2016							
PRC	783	1	784	0	14	14	798
Taiwan	247	3	250	0	0	0	250
Others	30	0	30	0	0	0	30
Total	<u>1,060</u>	<u>4</u>	<u>1,064</u>	<u>0</u>	<u>14</u>	<u>14</u>	<u>1,078</u>

Average sales per store	1H 2017 Average store*	1H 2016 Average store*	1H 2017 Average sales per store HK\$	1H 2016 Average sales per store HK\$	Changes HK\$	%
PRC	800.0	795.5	181,000	244,000	(63,000)	-25.8%
Taiwan	254.0	249.5	146,000	178,000	(32,000)	-18.0%
Group total**	1,054.0	1,045.0	173,000	229,000	(56,000)	-24.5%

* 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 2017, there were 1,074 spas and 12 concessionary counters. Of these, 1,070 were franchised spas, and 4 spas and 12 concessionary counters were directly operated by the Group. No concessionary counters were entrusted to third-party operators.

Group-wide, a total of 47 new stores were opened and 43 stores were closed during the six months ended 30 June 2017. Average sales per store decreased from HK\$229,000 for the six months ended 30 June 2016 to HK\$173,000 for the six months ended 30 June 2017.

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 Yen-Yu'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 2017, the Group's flagship NB-1 products accounted for 46.2% of total product sales. Sales of NB-1 branded products reached HK\$83.6 million for the six months ended 30 June 2017.

Human Resources

As at 30 June 2017, the Group had a total of 540 employees, of whom 437 were based in the PRC, 101 in Taiwan and 2 in other countries and regions. Total remuneration (excluding directors' emoluments) for the six months ended 30 June 2017 was approximately HK\$50.5 million (HK\$52.4 million for the six months ended 30 June 2016), including retirement benefit related costs of HK\$7.2 million (HK\$7.9 million for the six months ended 30 June 2016), with no stock option expenses (nil for the six months ended 30 June 2016). 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.

Capital Expenditures

The Group's capital expenditure of HK\$6.1 million for the six months ended 30 June 2017 was mainly related to the new plant construction in the PRC amounting to HK\$2.0 million, opening of new stores, renovation and equipment amounting to HK\$1.5 million, production equipment amounting to HK\$0.7 million, IT infrastructure amounting to HK\$0.7 million, research and development amounting to HK\$0.6 million and office renovation amounting to HK\$0.2 million.

OUTLOOK

We will continue to implement some positive marketing strategies as follows:

- We will continuously speed up new store open in tier 3 and tier 4 cities in the PRC
- We will optimize the franchisee's service and skills to create the distinguishability as a professional skin care brand
- We will make various favourable supporting programmes for customers with the aim to drive in-store traffic
- We will launch high-end food supplements continuously and take advantage of the policy of health care industry in the PRC to increase the revenue

CORPORATE GOVERNANCE HIGHLIGHTS 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 "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). These committees (save for executive committee) 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 CG Code. The unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2017 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 Listing Rules, and that adequate disclosures have been made.

In addition, the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 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 2017 Interim Report to be sent to the shareholders of the Company in due course.

Remuneration Committee

The remuneration committee has adopted terms of reference (Remuneration Committee Charter) which are in line with the code provisions of the CG Code. The main duties of the remuneration committee include determining the policy and structure for the remuneration of executive Directors, assessing performance 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 CG Code. 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 annually 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 CG Code

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 CG Code throughout the six months ended 30 June 2017, except for 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. The chairman of the board should also invite the chairmen of the audit, remuneration, nomination and any other committees to attend. In their absence, the chairman of the board should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Dr. TSAI Yen-Yu, the Chairperson of the Board, Mr. CHEN Ruey-Long, the Chairman of the audit committee, Mr. LU Chi-Chant, the Chairman of the remuneration committee, Mr. LEE Ming-Ta, the Chairman of the executive committee and Mr. HSIEH Pang-Chang, the Chairman of the nomination committee were unable to attend the 2017 AGM due to other overseas commitments. The Board had arranged for Dr. SU Chien-Cheng, an executive Director and a member of the remuneration committee and executive committee of the Company, who is well versed in all business activities and operations of the Group, to attend and chair the 2017 AGM on behalf of Dr. TSAI Yen-Yu and to respond to shareholders' questions.

The Company has optimized the planning and procedures of annual general meetings, give adequate time to all Directors to accommodate their work arrangements and provide all necessary supports for their presence and participation at annual general meetings such that the Chairperson of the Board and all Directors will be able to attend future annual general meetings of the Company.

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 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 2017 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 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND AND SPECIAL INTERIM DIVIDEND

The Board of the Company has resolved to declare an interim dividend for the six months ended 30 June 2017 of HK\$0.0171 per share (2016: interim dividend of HK\$0.041 per share) and a special interim dividend of HK\$0.0054 per share (2016: special interim dividend of HK\$0.025 per share). The interim dividend and special interim dividend will be distributed on Thursday, 19 October 2017 to shareholders whose names appear on the register of members of the Company as at the close of business on Thursday, 28 September 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of shareholders who qualify for the interim dividend and special interim dividend, the Register of Members of the Company will be closed from Wednesday, 27 September 2017 to Thursday, 28 September 2017, both days inclusive. In order to qualify for the interim dividend and special 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 Tuesday, 26 September 2017.

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.ir-cloud.com/hongkong/00157/irwebsite). The Interim Report for the six months ended 30 June 2017 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
Natural Beauty Bio-Technology Limited
Tsai Yen-Yu
Chairperson

Hong Kong, 24 August 2017

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; Dr. Su Sh-Hsyu as non-executive director; and Mr. Chen Ruey-Long, Mr. Lu Chi-Chant and Mr. Hsieh Pang-Chang as independent non-executive directors.