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 2008

Highlights of the Period

- Turnover increased by 63.4% to HK$315.7 million
- Gross margin maintained at high level of 83.9% (1H2007: 83.8%)
- Operating margin and net margin further improved to 53.3% and 47.5%
- Net profit surged by 101.6% to HK$149.8 million
- Return on Equity (ROE) accelerated to 33.1% (FY2007: 20.0%)
- Return on Assets (ROA) reached 26.5% (FY2007: 17.6%)

RESULTS

The directors of Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008, together with the comparative figures for 2007, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008
(With comparatives for the six months ended 30 June 2007)
(Expressed in thousands of Hong Kong dollars (HK$'000))

		For the six months ended 30 June	
		2008	2007
		(unaudited)	(unaudited)
	Note	***HK$'000***	*HK$'000*
Turnover	*4*	**315,651**	193,188
Cost of sales		**(50,679)**	(31,298)
Gross profit		**264,972**	161,890
Other income		**23,107**	29,004
Distribution and selling costs		**(69,168)**	(53,409)
Administrative expenses		**(38,535)**	(38,486)
Other expenses		**(12,089)**	(3,217)
Share of loss of an associate		**–**	(348)
Share of profit of a jointly controlled entity		**–**	19
Profit before taxation	*5*	**168,287**	95,453
Income tax expense	*6*	**(18,509)**	(21,157)
Profit for the period		**149,778**	74,296
Attributable to:			
Equity holders of the Company		**149,655**	74,329
Minority interests		**123**	(33)
		149,778	74,296
Dividends	*7*	**100,032**	100,000
Earnings per share	*8*		
– Basic		**7.48 HK cents**	3.72 HK cents
– Diluted		**7.48 HK cents**	Not applicable

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2008
(with comparatives at 31 December 2007)
(Expressed in thousands of Hong Kong dollars (HK$'000))

	Notes	**At 30 June 2008 (unaudited) *HK$'000***	At 31 December 2007 (audited) *HK$'000*
Non-current assets			
Investment property		**4,854**	4,544
Property, plant and equipment		**230,760**	218,025
Prepaid lease payments		**9,990**	9,516
Goodwill		**25,741**	24,562
Available-for-sale investments		**9,126**	9,126
Deferred taxation assets		**7,448**	7,550
		287,919	273,323
Current assets			
Inventories		**82,192**	71,017
Trade and other receivables	*9*	**79,585**	98,971
Prepaid lease payments		**279**	262
Held-for-trading investments		**70,080**	–
Bank balances and cash		**710,409**	588,741
		942,545	758,991
Current liabilities			
Trade and other payables	*10*	**86,210**	90,306
Dividend payable		**200,002**	2
Deferred income		**10,390**	9,763
Taxation payable		**12,268**	4,693
		308,870	104,764
Net current assets		**633,675**	654,227
Total assets less current liabilities		**921,594**	927,550
Non-current liability			
Retirement benefit obligations		**13,140**	11,899
		908,454	915,651
Capital and reserves			
Share capital		**200,000**	200,000
Reserves		**701,915**	709,626
Equity attributable to equity holders of the Company		**901,915**	909,626
Minority interests		**6,539**	6,025
Total equity		**908,454**	915,651

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2008

(With comparatives for the six months ended 30 June 2007 and as of 31 December 2007)

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

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at their fair values. The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2007, except as described below.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2008.

IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combination[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions as appropriate in the preparation of the accounts. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include the productive life of property, plant and equipment, impairment of goodwill, allowances for trade receivable and inventories and the determination of income tax.

3. SEGMENT INFORMATION

(a) Geographical segment

The Group's operations are located in the People's Republic of China (the "PRC"), Taiwan, Hong Kong, Macau and Malaysia.

An analysis of the Group's revenue and contribution to segment results and segmental assets and liabilities by geographic segments based on customers location, irrespective of the origin of the goods/services, is presented below:

	For the six months ended 30 June 2008			
	PRC (unaudited) ***HK$'000***	**Taiwan (unaudited)** ***HK$'000***	**Others (unaudited)** ***HK$'000***	**Total (unaudited)** ***HK$'000***
Turnover	**235,452**	**75,847**	**4,352**	**315,651**
Segment results	**135,249**	**28,152**	**(5,855)**	**157,546**
Unallocated expenses				**(5,149)**
Unallocated income				**15,890**
Profit before taxation				**168,287**
Income tax expense				**(18,509)**
Profit for the period				**149,778**

	For the six months ended 30 June 2007			
	PRC (unaudited) *HK$'000*	Taiwan (unaudited) *HK$'000*	Others (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
Turnover	139,282	50,565	3,341	193,188
Segment results	84,135	17,748	(1,830)	100,053
Unallocated expenses				(6,886)
Unallocated income				2,615
Share of loss of an associate				(348)
Share of profit of a jointly controlled entity				19
Profit before taxation				95,453
Income tax expense				(21,157)
Profit for the period				74,296

(b) Business segment

The group comprises the following main business segments:

– sale of cosmetic products and provision of beauty services

– leasing of investment properties

	For the six months ended 30 June 2008			For the six months ended 30 June 2007		
	Turnover (unaudited) *HK$'000*	**Other income (unaudited)** *HK$'000*	**Capital expenditure (unaudited)** *HK$'000*	Turnover (unaudited) *HK$'000*	Other income (unaudited) *HK$'000*	Capital expenditure (unaudited) *HK$'000*
Cosmetics products and beauty services	**315,651**	**–**	**7,549**	193,188	–	8,351
Investment properties	**–**	**73**	**–**	–	3,362	–
Others	**–**	**23,034**	**–**	–	25,642	–
	315,651	**23,107**	**7,549**	193,188	29,004	8,351

	Segment Assets	
	At 30 June 2008 (unaudited) *HK$'000*	At 31 December 2007 (audited) *HK$'000*
Cosmetics products and beauty services	**434,398**	428,495
Investment property	**4,854**	4,544
	439,252	433,039

4. TURNOVER

Turnover represents the net invoiced value of goods sold or services rendered after allowances for returns and discounts, net of consumption tax.

An analysis of turnover by major categories is as follows:

	For the six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Sales of goods	**307,795**	181,958
Service income	**7,590**	9,099
Entrustment fee income	**266**	2,131
	315,651	193,188

5. PROFIT BEFORE TAXATION

Profit before taxation in the condensed consolidated income statement was determined after crediting and charging the following items:

	For the six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Crediting:		
Interest income on bank deposits	**3,384**	2,615
Realized gain on disposal of short-term investments	**1,842**	1,406
Realized exchange gain	**12,506**	–
Charging:		
Net loss on disposals of property, plant and equipment	**251**	87
Staff costs, excluding directors' emoluments		
– Salaries and wages	**43,706**	34,147
– Pension costs		
– PRC	**3,530**	2,606
– Taiwan	**1,654**	1,187
– Hong Kong and other regions	**91**	111
Directors' emoluments (salaries and allowances)*	**2,123**	2,089
Depreciation of property, plant and equipment	**8,359**	9,171
(Written back) allowance for obsolete inventories	**(462)**	1,852
Provision for doubtful debts	**5,245**	1,824
Written off of uncollectible financial refunds receivable	**4,431**	–
Operating lease expense on land and buildings	**8,418**	8,385
Research and development costs	**956**	892

* *Included in directors' remuneration were fees of HK$1,494,000 (2007: HK$1,494,000), payable to directors during the report period.*

6. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided, as the Group has no assessable profits in Hong Kong for the six months ended 30 June 2008 (2007: Nil).

Taxation in overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries/places in which the Group operates.

	For the six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Group:		
Overseas taxation	**18,407**	17,238
Deferred taxation	**102**	3,919
Taxation for the period	**18,509**	21,157

7. DIVIDENDS

	For the six months ended 30 June	
	2008	2007
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
2007 Interim, paid, of 3.0 HK cents per ordinary share	**–**	60,000
2007 Interim Special, paid, of 2.0 HK cents per ordinary share	**–**	40,000
2008 Interim, proposed, of 5.0 HK cents per ordinary share	**100,032**	–
	100,032	100,000

The directors proposed an interim dividend of 5.0 HK cents per share. This proposed dividend has not been recognised as a liability at the balance sheet date.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's unaudited profit attributable to equity holders of approximately HK$149,655,000 for the six months ended 30 June 2008 (2007: HK$74,329,000) divided by weighted average number of approximately 2,000,000,000 ordinary shares (2007: 2,000,000,000) in issue during the period.

The calculation of the diluted earnings per share is based on the Group's unaudited profit attributable to equity holders of approximately HK$149,655,000 for the six months ended 30 June 2008 (2007: HK$74,329,000) divided by weighted average number of approximately 2,000,136,325 ordinary shares for the purposes of diluted earnings per share (2007: no dilutive potential shares).

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2008 (unaudited) *HK$'000*	At 31 December 2007 (audited) *HK$'000*
Trade receivables	**51,704**	59,351
Prepayments and deposits	**13,212**	14,064
Financial refunds receivable	**–**	9,834
Other receivables	**14,669**	15,722
Total trade and other receivables	**79,585**	98,971

The Group allows a credit period ranging from one to six months to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	At 30 June 2008 (unaudited) *HK$'000*	At 31 December 2007 (audited) *HK$'000*
Within 180 days	**36,862**	44,874
181 days to 365 days	**6,585**	5,096
1 to 2 years	**6,064**	7,391
Over 2 years	**2,193**	1,990
	51,704	59,351

The fair value of the Group's trade and other receivables at 30 June 2008 was approximate to the corresponding carrying amount.

10. TRADE AND OTHER PAYABLES

	At 30 June 2008 (unaudited) *HK$'000*	At 31 December 2007 (audited) *HK$'000*
Trade payables	**19,562**	21,813
Deposits from customers	**27,107**	25,389
Other tax payables	**5,841**	12,743
Other payables	**33,700**	30,361
Total trade and other payables	**86,210**	90,306

The following is an aged analysis of trade payables at the balance sheet date:

	At 30 June 2008 (unaudited) *HK$'000*	At 31 December 2007 (audited) *HK$'000*
Within 180 days	**19,410**	21,795
181 days to 365 days	**134**	–
1 to 2 years	**–**	2
Over 2 years	**18**	16
	19,562	21,813

The fair value of the Group's trade and other payables at 30 June 2008 was approximate to the corresponding amount.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by geographical region	1H2008		1H2007		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PRC	**235,452**	**74.6%**	139,282	72.1%	96,170	69.0%
Taiwan	**75,847**	**24.0%**	50,565	26.2%	25,282	50.0%
Others	**4,352**	**1.4%**	3,341	1.7%	1,011	30.3%
Total	**315,651**	**100.0%**	193,188	100.0%	122,463	63.4%

Turnover surged 63.4% to HK$315.7 million for the six months ended 30 June 2008 as compared to HK$193.2 million for the same period last year. The PRC market continued to demonstrate robust sales growth at 69.0%. Meanwhile, Taiwan market has recorded a 50.0% year-on-year growth in turnover. The growth was attributable to the significant recovery of the core spa product business. Other markets, including Hong Kong, Macau and Malaysia, sales increased 30.3%, but remained insignificant and accounted for only 1.4% of total turnover.

Turnover in the PRC climbed 69.0% or HK$96.2 million to HK$235.5 million for the six months ended 30 June 2008. The increase in turnover generated from the PRC market was mainly due to an encouraging increase of HK$98.7 million in product sales, representing a year-on-year growth of 74.2%. The increase in product sales was resulted from enhanced training on selling skills and product knowledge for our franchisees. The average store sales of the PRC market recorded a further growth of 54.4% for the first half of 2008. On the other hand, service income decreased by 17.2% to HK$3.4 million for the first six months of 2008, as a result of the closure of a self-owned spa during the year.

In Taiwan, turnover up 50.0% or HK$25.3 million to HK$75.8 million for the first six months of 2008 as compared to HK$50.6 million for the corresponding period in 2007. The improvement in turnover was resulted from the recovery of the spa business. There were also product sales of HK$7.9 million directly attributable to the retail brand products of Fonperi. Average store sales in respect to Taiwan's existing spa channel registered a 62.0% year–on-year growth.

As at 30 June 2008, there was one store in Hong Kong, one store in Macau and 51 stores in Malaysia. Overall sales increased 30.3%, but these regions remained immaterial and accounted for less than 2% of total turnover.

The Group's overall gross profit margin slightly improved from 83.8% for the first half of 2007 to 83.9% for the first half of 2008.

By Activities	**1H2008** *HK$'000*	1H2007 *HK$'000*	**Changes** *HK$'000*	%
Product Sales				
PRC	**231,753**	133,004	98,749	74.2%
Taiwan	**72,112**	46,226	25,886	56.0%
Others	**3,930**	2,728	1,202	44.1%
Total	**307,795**	181,958	125,837	69.2%
Service				
PRC	**3,433**	4,147	(714)	-17.2%
Taiwan	**3,735**	4,339	(604)	-13.9%
Others	**422**	613	(191)	-31.2%
Total	**7,590**	9,099	(1,509)	-16.6%
Entrustment				
PRC	**266**	2,131	(1,865)	-87.5%
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**266**	2,131	(1,865)	-87.5%

Turnover by activities	**1H2008** *HK$'000*	%	1H2007 *HK$'000*	%	**Changes** *HK$'000*	%
Products	**307,795**	**97.5%**	181,958	94.2%	125,837	69.2%
Services	**7,590**	**2.4%**	9,099	4.7%	(1,509)	-16.6%
Entrustment	**266**	**0.1%**	2,131	1.1%	(1,865)	-87.5%
Total	**315,651**	**100.0%**	193,188	100.0%	122,463	63.4%

Products

The Group is principally engaged in the manufacture and sale of several types of products, namely skin care products, beauty products, aromatherapeutic products, color make up and heath supplements, under the "Natural Beauty" and "Fonperi" brand names. Product sales are the Group's key revenue contributor and are primarily made through franchise spas, self–owned spas and retail outlets. For the first six months of 2008, products sales amounted to HK$307.8 million, or 97.5% of total revenue as compared to HK$182.0 million, or 94.2% for the corresponding period in 2007. Gross margin of product sales for the period remained stable at 87.6% compared with 87.2% for the full year of 2007.

The surge in products sales was mainly attributable to the HK$98.7 million and HK$25.9 million increase in sales generated from the PRC market and Taiwan market respectively. Starting from 2008, the Group further enhanced product offering by introducing products for "family and friends of our existing customers". The Group has also launched 36 new products, including 7 for health supplements. By 30 June 2008, 427 products were repackaged. Besides, the Group provided free intensive training sessions to the franchisees in order to improve both the service quality and selling skills which in turn stimulated product sales. Taiwan market also recovered from the declining trend of the past two years and recorded HK$72.1 million in sales of products, an encouraging growth of 56.0% from HK$46.2 million for the first half of 2007. If the retail sales of Fonperi were excluded, our spa products registered a 57.2% growth in the period under review.

Our retail brand "Fonperi" launched in April 2007 recorded HK$7.9 million of sales during the first six months of 2008, when compared with HK$5.4 million in the first half of 2007.

Other markets such as Hong Kong, Macau and Malaysia only accounted for 1.3% of total product sales for the period.

	1H2008		1H2007		**Changes**	
Service income	***HK$'000***	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Training income	**819**	**10.8%**	593	6.5%	226	38.1%
SPA service income	**5,799**	**76.4%**	6,152	67.6%	(353)	-5.7%
Management fee income	**238**	**3.1%**	1,160	12.8%	(922)	-79.5%
Others	**734**	**9.7%**	1,194	13.1%	(460)	-38.5%
Total	**7,590**	**100.0%**	9,099	100.0%	(1,509)	-16.6%

Services

Service income includes income from self-owned spa with services provided, training income and management fee received from franchisees, and other service-related income.

The Group provides skin treatments, beauty and spa services through its self-owned spas. Service income is generated only from our self-owned spas as the Group does not share any service income generated in franchised spas with franchisees under the current franchise arrangement. Service income generated from franchised spas is vital for them to cover their operating expenses such as rental, salary and utility. During the first six months of 2008, income from services decreased by 16.6% to HK$7.6 million when compared to the corresponding period of 2007, which was mainly attributable to the reduction of management fee income in Taiwan market due to the continued depressed economy in Taiwan. During 2007, the management decided not to charge the franchised stores in Taiwan for management fee income, resulted in the reduction of HK$0.9 million management fee income.

While self-owned stores are necessary to be established as model spas in new markets, the Group considers it to be more profitable and cost-efficient as a whole to allocate resources to stimulate overall product sales.

On the other hand, SPA service income from self-own stores decreased slightly by 5.7% to HK$5.8 million, mainly due to the closure and relocation of 2 self-own stores in the period under review.

Entrustment

Entrusted spas are owned by the Group and operated by reputable operators. The spas were previously operated by the Group. In order to allocate financial and human resources more efficiently, the Group has entrustment arrangements in the PRC ranging from one to five years, where our self-owned spas were entrusted to reputable operators in local areas. The operators are responsible for all the profits and losses of the operations and sell the Group's products in their stores, while the Group receives a fixed annual entrustment fee until those operators repay the Group's initial investment in five years. The entrusted spas then become regular franchised spas.

The Group believes the entrustment arrangement is mutually beneficial for both the operators and the Group. Local operators can better serve the specific needs of local customers, and hence generate more product and service revenue. The Group, on the other hand, can secure a steady annual entrustment income while maintaining the distribution location and re-allocating our executives to explore new markets.

In the first half of 2008, entrustment income recorded a further decrease of 87.5% to HK$0.3 million when compared with HK$2.1 million for the same period in 2007. The drop in entrustment income was because certain entrustment arrangements expired by the end of 2007. There was only one entrusted spa as at 30 June 2008.

Other income

Other income mainly represented interest income, realized exchange gain, financial refunds and realized gain on held-for-trading investments, which was HK$3.4 million, HK$12.5 million, HK$1.4 million and HK$1.8 million respectively and others for the remaining balance. For the first half of 2008, other income decreased by 20.3%, or HK$5.9 million from HK$29.0 million for the first half of 2007 to HK$23.1 million. The decrease was mainly attributable to the drop of HK$18.2 million in financial refunds in the PRC. Also, we have sold one of the investment properties during 2007, which resulted in the decrease in rental income by HK$3.3 million for the first six months of 2008. However, the decrease was off-set by the realized exchange gain from the dividend received from a PRC subsidiary during the period.

Distribution and administrative cost

The Group's distribution and selling costs as a percentage to turnover decreased from 27.6% for the first half of 2007 to 21.9% for the same period in 2008. Total costs in dollar terms increased by HK$15.8 million, from HK$53.4 million for the six months ended 30 June 2007 to HK$69.2 million for the six months ended 30 June 2008. During the period under review, the Group has reduced its focus on media exposure and introduced products offering through "family and friends of our existing customers". Instead of media advertising, free samples and gifts were given to our existing customers to promote them to their friends and family members. In percentage terms, advertising and promotion expenses represent 9.6% of total turnover for the six months ended 30 June 2008, when compared with 12.6% for the same period last year. Other key expense items mainly include salary, commission, travel expenses and rental expenses, which amounted to HK$10.5 million, HK$5.3 million, HK$3.0 million and HK$6.1 million respectively.

Administrative expenses as a percentage to turnover decreased from 19.9% for the first six months of 2007 to 12.2% for the first six months of 2008. The cost mainly covered salary, legal and professional fee, depreciation and rental charges. Total administrative expenses in dollar terms remained steady at HK$38.5 million for the six months ended 30 June in both 2007 and 2008.

Other expenses

For the six months ended 30 June 2008, other expenses increased by HK$8.9 million to HK$12.1 million, compared with HK$3.2 million for the last corresponding period. Other expenses mainly included a donation amount of HK$3.9 million, written off of uncollectible financial refunds receivable amounted to HK$4.4 million and bank charges of HK$1.5 million. The Group made a donation immediately after the Sichuan earthquake in May 2008, which was in a scale of 8.0 surface wave magnitudes.

Profit before taxation

The increase in gross profit, netting the reduction in other income, the increase in distribution administrative costs and other expenses contributed to the surge of 76.3% in profit before tax, from HK$95.5 million for the six months ended 30 June 2007 to HK$168.3 million for the same period in 2008.

Taxation

Taxation expenses decreased 12.5% from HK$21.2 million for the six months ended 30 June 2007 to HK$18.5 million for the six months ended 30 June 2008. The effective tax rate of the Group for the period ended 30 June 2007 and 2008 were 22.2% and 11.0% respectively. The drop in taxation expenses and effective tax rate was benefited from our PRC operation, where a subsidiary started to utilize the second year benefit from its first two-year exemption followed by three-year half deduction profit tax holiday (2+3 tax holiday).

Net profit for the period

As a result, the net income for the period rose 101.6% from HK$74.3 million for the six months ended 30 June 2007 to HK$149.8 million for the same period in 2008.

Liquidity and financial resources

Cash generated from operating activities for the six months ended 30 June 2008 was approximately HK$169.0 million (for the six months ended 30 June 2007: HK$145.1 million). The increase was primarily due to the changes in working capital. As at 30 June 2008, the Group had bank balances and cash of approximately HK$710.4 million (as at 31 December 2007: HK$588.7 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2007 and 30 June 2008, the Group's gearing ratio was zero (defined as net debt divided by shareholders' equity) as the Group was in net cash balance as at both year end dates. Current ratio of the Group (defined as current assets divided by current liabilities) as at 31 December 2007 and 30 June 2008 were 7.2 times and 3.1 times respectively. The relatively low current ratio at 30 June 2008 was due to FY2007 final and final special dividends of HK$200 million were only payable in July 2008. As at 30 June 2008, 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 the Group has sufficient financial resources to finance its commitments and working capital requirements.

Charges on assets

There was no asset pledged as at 30 June 2008.

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of its revenue denominated in Renminbi and New Taiwan Dollar from the PRC and Taiwan as its operations are mainly concentrated in these two geographical areas. As at 30 June 2008, approximately 39.7% (as at 31 December 2007: 44.9%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 36.9% (as at 31 December 2007: 33.6%) was denominated in New Taiwan Dollar and the remaining 23.4% (as at 31 December 2007: 21.5%) was denominated in United States Dollars, Hong Kong Dollars, Macau Pataca and Malaysia Ringgits. The Group continued to adopt a conservative approach in respect of foreign exchange exposure management. Review of the Group's exposure to foreign exchange risk will be conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

BUSINESS REVIEW

	1H2008	1H2007	**Changes**	
By geographic region	***HK$'000***	*HK$'000*	*HK$'000*	%
PRC				
Turnover-Product Sales	**231,753**	133,004	98,749	74.2%
Turnover-Service	**3,433**	4,147	(714)	-17.2%
Turnover-Entrustment	**266**	2,131	(1,865)	-87.5%
PRC Total	**235,452**	139,282	96,170	69.0%
Taiwan				
Turnover-Product Sales	**72,112**	46,226	25,886	56.0%
Turnover-Service	**3,735**	4,339	(604)	-13.9%
Turnover-Entrustment	**–**	–	–	n/a
Taiwan Total	**75,847**	50,565	25,282	50.0%
Others				
Turnover-Product Sales	**3,930**	2,728	1,202	44.1%
Turnover-Service	**422**	613	(191)	-31.2%
Turnover-Entrustment	**–**	–	–	n/a
Others Total	**4,352**	3,341	1,011	30.3%

PRC Market

The Group continues to maintain its leading position in the PRC market despite intense market competition. In the first six months of 2008, the encouraging growth of product sales was resulted from the strengthening of service quality and selling skills for franchised stores through video conferencing facilities of 13 locations around PRC as well as headquarter trainings. Product sales in the PRC rose 74.2% to reach HK$231.8 million.

The Group's entrustment strategy continued to pay off. The Group entrusted its spas to reputable operators in established areas to enhance cost efficiency. Although the Group only received entrustment fees and product revenue from the operators, the entrustment successfully minimized the loss incurred in the past. Hence, the Group's overall gross profit in the PRC market increased by HK$81.6 million and the overall gross margin remained constant at 84.8% for the first six months of 2008.

Operating profit increased by 60.8% to HK$135.2 million as compared with HK$84.1 million for the first six months of 2007. Overall net margin also grew by 3.4 percentage points, from 50.7% for the first six months of 2007 to 54.1% for the same period in 2008.

Taiwan Market

During the first six months of 2008, product sales in Taiwan market improved by 56.0% to HK$72.1 million as compared with HK$46.2 million for the corresponding period in 2007.

Operating profit in Taiwan market increased by 58.6% to HK$28.2 million as compared with HK$17.7 million for the first six months of 2007. There was improvement in both operating margin and net margin. Overall operating margin increased by 2.0 percentage points to 37.1% for the six months ended 30 June 2008, from 35.1% of the same period last year, and overall net margin also increased from 32.0% for the first six months of 2007 to 34.7% for the same period in 2008.

Distribution channels

Store Number by Ownership As at 30 June 2008	Franchisee owned Spa	Entrusted Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Group Total	Retail Channel	Grand Total
Taiwan	448	–	9	457	–	–	–	457	3,903	4,360
PRC	1,433	1	6	1,440	11	46	57	1,497	–	1,497
Others	51	–	2	53	–	–	–	53	–	53
Total	1,932	1	17	1,950	11	46	57	2,007	3,903	5,910

Store Number by Ownership As at 30 June 2008	Franchisee owned	Entrusted	Self owned	Retail Channel	Total
Taiwan	448	–	9	3,903	4,360
PRC	1,433	12	52	–	1,497
Others	51	–	2	–	53
Total	1,932	12	63	3,903	5,910

Average Sales per Store without adjusting China Store numbers:

Average sales per store	**1H2008 Average store***	1H2007 Average store*	**1H2008 Average sales per store**	1H2007 Average sales per store	**Changes**	
			HK$	*HK$*	*HK$*	%
PRC	**1,481.0**	1,708.5	**159,000**	82,000	77,000	93.9%
Taiwan***	**457.0**	493.5	**149,000**	92,000	57,000	62.0%
Group total**	**1,938.0**	2,202.0	**157,000**	84,000	73,000	86.9%

Average Sales per Store after adjusting China Store numbers:

Average sales per store	**1H2008 Average store***	1H2007 Average store*	**1H2008 Average sales per store**	1H2007 Average sales per store	**Changes**	
			HK$	*HK$*	*HK$*	%
PRC *(see note)*	**1,481.0**	1,350.5	**159,000**	103,000	56,000	54.4%
Taiwan***	**457.0**	493.5	**149,000**	92,000	57,000	62.0%
Group total**	**1,938.0**	1,844.0	**157,000**	100,000	57,000	57.0%

* 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.

*** Taiwan sales figure excluded retail sales of "Fonperi" brand products which are sold by different distribution channel.

Note: The group has revised the store numbers at 31 December 2007. Before 2007, there was no enforcement of formal procedures to finalise the termination of franchisee contracts. As at 31 December 2007, there were 358 stores which had not completed all the closure procedures over the years and remained on the list, but the stores are no longer existed at the recorded addresses, including those affected by urban re-development at their previous locations (e.g. Beijing area). For like to like comparison, the respective store numbers for the calculation of average store numbers of 1H2007 was reduced by 358 accordingly.

The Group principally derives income through our unique distribution channels, namely spas and counters in department stores. As at 30 June 2008, there were 1,950 spas and 57 counters. All spas provide a variety of services, including hydrotherapy, facial, body care and skin care analysis to its customers, whereas counters in department stores usually provide skin care analysis.

As of 30 June 2008, there were total 1,932 franchisee spas, and 17 spas and 46 counters directly operated by the Group. There were also 1 spa and 11 counters being entrusted to reputable operators.

A total of 130 new stores were opened and 98 stores were closed during the period under review.

In order to present a more meaningful view of the operations for comparison purpose, we have revised the respective store numbers to present consistent average sales per store for our effective stores for the six months ended 30 June 2007. The average sales per store in PRC increased 54.4%, from HK$103,000 for the first six months of 2007 to HK$159,000 for the same period in 2008. In Taiwan, we also improved average sales per store by 62.0%, from HK$92,000 for the first six months of 2007 to HK$149,000 for the same period in 2008.

Our target is to encourage franchisees to open bigger spas, so as to improve average store sales by adding more service spaces.

Franchised spas are owned by franchisees and they are responsible for the capital investment of their spas, and are obliged to use "Natural Beauty" or "NB" brand for products in their spas.

Self-owned spas are primarily set up to act as model spas for potential franchisees. While there are needs to establish self-owned spas as model spas in new markets, the Group considers it to be more profitable with high product gross margin and cost-efficient as a whole to allocate resources to stimulate product sales instead of expanding the operation of self-owned spas, as higher overhead costs were incurred when compared with franchised spas. The Group, therefore, has entrusted and will continue to entrust certain of its self-owned spas in explored markets to reputable operators.

The Group believes the entrustment strategy will create a win-win situation for both the operators and the Group. Local operators can better serve the specific needs of local customers, and hence generate more sales and service revenues. The Group, on the other hand, can secure a steady annual entrustment income while maintaining its distribution network and re-allocating its resources to explore new markets.

Retail Business

Since the launch of Fonperi products, the retail outlets in Taiwan has increased from 1,394 as at 31 December 2007 to 3,903 points of sales as at 30 June 2008, including Watsons, Carrefour, Geant, RT-Mart, Wellcome, FamilyMart and others.

Product Repackaging

In order to have a consistent image, the Group has re-designed all its product packages and simplified the package type of over 200 various forms for more than 700 types of products to 24 standard forms only. A total of 427 (1H2007: 314) products have changed their product packages by 30 June 2008.

Research and Development

In order to maintain our competitive edge, the Group emphasizes on research and development, so as to improve the quality of existing products and develop new products. The Group has been collaborating with overseas cosmetic companies on technological development and imported biotechnology materials from Europe, Japan and Australia, which have been applied in over 700 NB's products. The Group's research and development team comprises 13 members and a number of overseas consultants with experience and expertise in cosmetics, medical, pharmacy and bio-chemistry. NB's products are constantly enhanced and modified with new ingredients developed by its research and development team. The Group believes that the collaboration of different expertise and experience within the team, together with Dr. Tsai's over 30 years of industry experience and knowledge, can help develop high quality beauty and skin care products. NB principally uses natural ingredients in producing its products and adopts special formulation to suit the specific needs of the delicate skin type for oriental women. NB's products are attentive to the natural metabolism of skin with long-lasting effects.

In developing new products, the research and development team will take into account the feedback and advice from senior management of the Group. Prototype of new products will be distributed to over 1,000 selected senior beauty professionals. In accordance with the outcome of the tests, refinements or modifications to the products may be made, prior to its full commercial launch to ensure the quality, effectiveness and safety standard of NB's products. When a product requires registration with relevant authorities, it will be done prior to market launch. All NB products are assured to meet all relevant regulations.

In addition to NB's dedicated research and development team, NB has collaborated with a leading researcher in the field of human genome and stem cell technology, in the development of anti-aging NB-1 product family and other products for spot removing, whitening, anti-allergy and slimming. Combining Dr. Tsai's over 30 years of experience in the beauty and skin care industry and together with the strong background of its research and development staff, NB has the competitive advantages in the research and development of beauty and skin care products.

The total research and development costs for the six months ended 30 June 2008 amounted to HK$1.0 million (1H2007: HK$0.9 million).

New Products

After the successful launch of our flagship product, anti-aging NB-1 series in late 2003, we further launched NB-1 Whitening series, NB-1 anti-allergy and NB-1 pore refining series. For the six months ended 30 June 2008, over 156,000 sets / bottles (1H2007: 62,000 sets / bottles) of NB-1 family products were sold with a turnover of HK$111.5 million (1H2007: HK$48.4 million), accounting for over one-third of total product sales during the period under review.

We also launched a retail brand "Fonperi" in Taiwan in April 2007, Fonperi products are sold via retail channels like hypermarkets and drugstores, including 6 key accounts, namely Watsons, Carrefour, Geant, RT-Mart, Wellcome and FamilyMart, as well as 10 wholesalers. There were 3,903 retails points of sales selling "Fonperi" products in Taiwan. Up to 30 June 2008, over 142,600 units were sold with a turnover of HK$7.9 million.

For the first six months of 2008, the Group continued to enrich the product range and launched 36 new products, including 12 new products of "Fonperi" and 7 new health supplement products.

Information Technology

The Group starts to implement ERP system by Oracle to link up the key decision making process throughout the Group's value chain. The ERP system is expected to enhance the Group's information flow, and to enable the generation of more accurate and timely production planning and sales forecast.

The implementation of the ERP system in Taiwan was completed in 2004. There were three logistic centres in the PRC operated by the Group. The Warehouse Management System (WMS) is now linked to Oracle ERP system. The ERP system in the PRC is now under the implementation stage.

In order to improve operating efficiency, the Group has developed a B2B portal for our franchisee to order goods online. In addition, we also have a B2C portal in our website for retail customers to shop online.

Human Resources

As at 30 June 2008, the Group had a total of 994 employees, of which 777 were based in PRC, 197 in Taiwan and 20 in other areas. Total remuneration (excluding directors' emoluments) for the period ended 30 June 2008 was appropriately HK$49.0 million (1H2007: HK$38.1 million), including retirement benefits cost of HK$5.3 million (1H2007: HK$3.9 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a periodical basis.

The Group maintains good employee relations and is committed to providing employee training and development. Professional training courses are offered to beauticians employed by the Group and its franchisees on a regular basis to promote and maintain the quality and consistency of the services provided.

In addition, the Group has adopted a share option scheme on 11 March 2002, for the purpose of providing incentives and reward to eligible participants who contributed to the success of the Group's operations. The Directors may, at their discretion, invite any employee or director of the Group and any qualified person as set out in the scheme, to subscribe for shares. On 16 July 2008, the Group granted options to certain employees to subscribe a maximum of 2,213,456 shares, subject to achieving certain performance targets. The stock options could be vested at a ratio of 50%, 30% and 20% for a three-year period. On 7 July 2008, there were 639,430 ordinary shares of the Company allotted and issued in connection with the exercise of vested portion of employee stock options granted in previous year.

The Directors also strengthened its professional management team by recruiting chief operational officer and some key management positions like head of sales and head of marketing from multinational companies for the PRC and Taiwan markets. The Board believes that the recruitment of more industry experts will be beneficial to the Group's expansion and long-term development in future.

Capital Expenditures

The Group's major capital expenditures were related to self-owned spas and machinery in our factories. There were HK$7.5 million additions to fixed assets for the first six months of 2008 (1H2007: HK$8.4 million), comprising cost for renovation as well as addition of furniture and fixtures for our self-owned spas, which amounted to HK$3.6 million and HK$2.2 million respectively.

Franchisees are responsible for the capital expenditures of their spas.

OUTLOOK

China

Rising purchasing power and growing product awareness will lead to the expansion of skin care products market in China. Thus, the PRC market remains as the Group's strategic focus in the foreseeable future. With the strengthening of selling skills training and product knowledge of the franchisees, together with new products introduced and further expansion of the franchise network, average sales per store is expected to further improve. Also, the Group has entered into a sales and purchase agreement to acquire the entire equity interest in a related company which principally engaged in the research, development and manufacture of health supplements. Through this acquisition, the Group can further strengthen its position in expanding health supplements business and improving its overall competitive edge.

Taiwan

In spite of high expectation towards the newly elected Taiwan President, Taiwan's economy has not gone through much tangible changes during the first six months of 2008. As both stock market and retail market are expected to remain stagnant in the coming months, we will focus more on our core business of franchising spa products.

For both markets, new products, especially health supplements, will be introduced to reach extended family and friends of our existing client base.

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 and the remuneration committee with defined terms of reference which are of no less exacting terms than those set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance") as set out in Appendix 14 to the Listing Rules. These committees are chaired by independent non-executive directors. The Board considers the determination of the appointment and removal of directors to be the Board's collective decision and accordingly, it does not intend to adopt the recommended best practice of the Code on Corporate Governance to set up a nomination committee.

Audit Committee

The audit committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The unaudited financial statements of the Company for the six months ended 30 June 2008 have been reviewed by the audit committee who is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

Remuneration Committee

The remuneration committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of executive directors and senior management and making recommendations to the Board from time to time.

Compliance with the Code on Corporate Governance Practices

The Company recognises the importance of good corporate governance in enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules for the six months ended 30 June 2008, except for the following deviation:

Code provision E.1.2

This code provision stipulates that the chairman of the board of a listed issuer should attend the issuer's annual general meeting. Dr. Tsai Yen Yu, the Chairperson of the Company, has been heavily committed to business operations of the Group in the Mainland China and Taiwan. Despite her utmost intention to be present at the Company's 2008 annual general meeting held on 12 June 2008, business circumstances made it impossible. However, although she was unable to attend, she had duly arranged for Dr. Su Chien Cheng, an executive director of the Company who is well versed in all the business activities and operations of the Group, to attend on her behalf and to chair the meeting and to respond to shareholders' questions.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the review period.

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

During the six months ended 30 June 2008, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

INTERIM DIVIDEND

The Board has resolved to recommend the payment of an interim dividend of 5.0 HK cents per share (2007: interim dividend of 3.0 HK cents and interim special dividend of 2.0 HK cents per share). The interim dividend will be distributed on or around 14 November 2008 to shareholders whose names appear on the register of members of the Company as at the close of business on 22 October 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 October 2008 to 24 October 2008, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the interim dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 22 October 2008. The interim dividend will be distributed on or around 14 November 2008.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

This interim results announcement is also published on the website of the Stock Exchange and that of the Company at www.nblife.com/ir. An interim report of the Company containing all the information required by paragraph 37 of Appendix 16 of the Listing Rules will be despatched to the shareholders and will be published on the website of the Company and that of the Stock Exchange in due course.

By order of the Board
Dr. Tsai Yen Yu
Chairman

As of the date hereof, the Executive Directors of the Company are Dr. Tsai Yen Yu, Mr. Lee Ming Ta, Dr. Su Chien Cheng and Dr. Su Sh Hsyu. The Independent Non-executive Directors of the Company are Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching.

Hong Kong, 24 September 2008