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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 2020**

HIGHLIGHTS:

- Revenue decreased by 23.6% to HK\$156,498,000.
- Net loss recorded of HK\$6,447,000.
- No interim dividend was proposed for the six months ended 30 June 2020 (2019: Nil).

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 2020, together with the comparative figures for the first half of 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	(unaudited) HK\$'000	(unaudited) HK\$'000 (Restated)
Revenue	3A	156,498	204,888
Cost of sales		<u>(63,942)</u>	<u>(73,724)</u>
Gross profit		92,556	131,164
Other income and other gains		9,370	3,420
Impairment losses, net of reversal	5	143	(2,076)
Distribution and selling expenses		(70,274)	(66,724)
Administrative expenses		(39,585)	(38,920)
Other expenses and other losses		<u>(2,618)</u>	<u>(814)</u>
(Loss)/profit from operations		(10,408)	26,050
Finance costs		<u>(800)</u>	<u>(793)</u>
(Loss)/profit before tax		(11,208)	25,257
Income tax credit/(expense)	4	<u>4,761</u>	<u>(8,707)</u>
(Loss)/profit for the period	5	<u>(6,447)</u>	<u>16,550</u>
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences arising on translating foreign operations		<u>(7,612)</u>	<u>(2,612)</u>
Total comprehensive income for the period		<u>(14,059)</u>	<u>13,938</u>
(Loss)/profit for the period attributable to:			
Owners of the Company		<u>(6,447)</u>	<u>16,550</u>
Total comprehensive income attributable to:			
Owners of the Company		<u>(14,059)</u>	<u>13,938</u>
(Loss)/earnings per share	7		
Basic		<u>HK(0.32) cents</u>	<u>HK0.83 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2020

		At 30 June 2020 (unaudited) <i>HK\$'000</i>	At 31 December 2019 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Investment properties		7,928	7,928
Property, plant and equipment		281,856	268,191
Right-of-use assets		74,892	76,772
Intangible assets		14,478	15,017
Goodwill		26,874	27,383
Deferred tax assets		9,877	2,181
		<u>415,905</u>	<u>397,472</u>
Current assets			
Inventories		101,863	85,492
Trade and other receivables	8	105,941	124,762
Contract costs		622	429
Amounts due from related parties		–	134
Pledged bank deposits		3,415	3,415
Bank and cash balances		129,630	145,696
		<u>341,471</u>	<u>359,928</u>
Current liabilities			
Trade and other payables	9	98,759	103,688
Borrowings		28,389	14,556
Amounts due to related parties		67	370
Lease liabilities		9,287	7,566
Contract liabilities		23,259	27,376
Current tax liabilities		2,765	4,660
		<u>162,526</u>	<u>158,216</u>
Net current assets		<u>178,945</u>	<u>201,712</u>
Total assets less current liabilities		<u>594,850</u>	<u>599,184</u>

	At 30 June 2020 (unaudited) <i>Notes</i> HK\$'000	At 31 December 2019 (audited) <i>HK\$'000</i>
Non-current liabilities		
Lease liabilities	16,747	20,339
Retirement benefit obligations	661	652
Borrowings	23,708	10,400
	41,116	31,391
Net assets	553,734	567,793
Capital and reserves		
Share capital	200,210	200,210
Reserves	353,524	367,583
Total equity	553,734	567,793

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

(With comparatives for the six months ended 30 June 2019 and as of 31 December 2019)
(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 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

These condensed financial statements should be read in conjunction with the 2019 audited annual financial statements (“**2019 Audited Annual Results**”) as disclosed in the 2019 annual report of the Group, which is expected to be published on or about 7 December 2020. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed financial statements are consistent with those to be disclosed in the 2019 annual report of the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3A. REVENUE

Disaggregation of revenue

	Six months ended 30 June	
	2020 (unaudited) <i>HK\$'000</i>	2019 (unaudited) <i>HK\$'000</i>
Types of goods or services		
Sales of goods	152,938	196,543
Service income	<u>3,560</u>	<u>8,345</u>
Total	<u>156,498</u>	<u>204,888</u>
Geographical markets		
The People's Republic of China (the "PRC")	79,494	151,595
Taiwan	74,852	51,729
Others	<u>2,152</u>	<u>1,564</u>
Total	<u>156,498</u>	<u>204,888</u>
Timing of revenue recognition		
A point in time	152,938	196,543
Over time	<u>3,560</u>	<u>8,345</u>
Total	<u>156,498</u>	<u>204,888</u>

3B. 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 2020

	The PRC (unaudited) HK\$'000	Taiwan (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue from external customers	<u>79,494</u>	<u>74,852</u>	<u>2,152</u>	<u>156,498</u>
Segment (loss)/profit	<u>(14,213)</u>	<u>5,727</u>	<u>2,140</u>	(6,346)
Unallocated corporate expenses				(5,496)
Unallocated income				<u>634</u>
Profit before tax				<u>(11,208)</u>

Six months ended 30 June 2019

	The PRC (unaudited) HK\$'000 (Restated)	Taiwan (unaudited) HK\$'000	Others (unaudited) HK\$'000	Total (unaudited) HK\$'000 (Restated)
Revenue from external customers	<u>151,595</u>	<u>51,729</u>	<u>1,564</u>	<u>204,888</u>
Segment profit	<u>26,715</u>	<u>4,719</u>	<u>1,139</u>	32,573
Unallocated corporate expenses				(8,009)
Unallocated income				<u>693</u>
Profit before tax				<u>25,257</u>

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment. Unallocated income mainly includes interest income.

Geographical information

The following is an analysis of the Group's non-current assets by reportable and operating segments:

	At 30 June 2020 (unaudited) HK\$'000	At 31 December 2019 (audited) HK\$'000
The PRC	338,723	317,739
Taiwan	65,999	76,545
Others	<u>1,306</u>	<u>1,007</u>
	<u>406,028</u>	<u>395,291</u>

No analysis of segment assets and liabilities is presented as they are not regularly reviewed by the CODM.

4. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2020 (unaudited) HK\$'000	2019 (unaudited) HK\$'000 (Restated)
The charge comprises:		
Taxation in the PRC		
Current period	1,006	3,580
Under provision in prior years	<u>538</u>	<u>570</u>
	<u>1,544</u>	<u>4,150</u>
Taxation in Taiwan and other jurisdictions		
Current period	1,865	1,537
Under provision in prior years	<u>-</u>	<u>7</u>
	<u>1,865</u>	<u>1,544</u>
Deferred taxation		
Current period	<u>(8,170)</u>	<u>3,013</u>
	<u>(4,761)</u>	<u>8,707</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% (2019: 25%). The statutory withholding tax rate for non-PRC resident is 10% (2019: 10%).

Pursuant to the relevant laws and regulations in the PRC and Taiwan, dividend withholding tax is imposed at a rate of 10% and 21% on dividends declared in respect of profits earned by PRC and Taiwan subsidiaries respectively that are received by non-local resident entities. No withholding tax on dividends for the PRC and Taiwan were recognised during the period.

Corporate Income Tax in Taiwan is charged at 20% for the six months ended 30 June 2020 (2019: 20%). Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

5. (LOSS)/PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK\$’000	HK\$’000
(Loss)/profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	13,798	11,483
Depreciation of right-of-use assets	8,029	6,155
Amortisation of intangible assets	876	925
Total staff cost	59,222	62,391
Loss on disposal of property, plant and equipment	2,133	–
(Reversal of allowance)/allowance for trade receivables	(143)	2,076
Allowance for obsolete inventories, included in cost of sales	3,491	1,040
Exchange loss/(gain)	213	(746)
Interest income on bank deposits	(634)	(693)
Cost of inventories sold	42,050	53,838
Operating lease charge with 12 months	530	595
Finance costs	800	793
	<u>800</u>	<u>793</u>

6. DIVIDENDS

The directors do not recommend the payment of any dividend for the six months ended 30 June 2020 (2019: Nil).

7. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company is based on the loss attributable to the owners of the Company of approximately HK\$6,447,000 for the six months ended 30 June 2020 (2019: profit HK\$16,550,000) and on the number of 2,002,100,932 (2019: 2,002,100,932) ordinary shares of the Company in issue during the period.

8. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 120 days (2019: 30 to 120 days) to its trade customers. The aging analysis of trade receivables presented based on the date of delivery of goods at the end of reporting period is as follows:

	At 30 June 2020 (unaudited) HK\$'000	At 31 December 2019 (audited) HK\$'000
Trade receivables		
Within 180 days	83,041	100,512
Over 180 days	7,401	4,982
Less: allowance for doubtful debts	<u>(6,446)</u>	<u>(6,678)</u>
	<u>83,996</u>	<u>98,816</u>
Prepayments	14,657	21,229
Other receivables and deposits	<u>7,288</u>	<u>4,717</u>
Total trade and other receivables	<u>105,941</u>	<u>124,762</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 2020 (unaudited) HK\$'000	At 31 December 2019 (audited) HK\$'000
Trade payables:		
Within 90 days	28,930	26,211
91 days to 365 days	100	17
Over 365 days	14	14
	29,044	26,242
Deposits from franchisees	25,830	25,164
Other tax payables	1,852	10,448
Accruals	21,793	27,004
Other payables	20,240	14,830
	98,759	103,688

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.

10. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the current period's presentation. The new classification of the accounting items are considered to provide a more appropriate presentation of the state of affairs of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by

geographical region	1H 2020		1H 2019		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
PRC	79,494	50.8%	151,595	74.0%	(72,101)	(47.6%)
Taiwan	74,852	47.8%	51,729	25.2%	23,123	44.7%
Others	2,152	1.4%	1,564	0.8%	588	37.6%
Total	156,498	100.0%	204,888	100.0%	(48,390)	(23.6%)

During the six months ended 30 June 2020, in face of COVID-19, turnover of the Group decreased by 23.6% or HK\$48.4 million to HK\$156.5 million as compared with HK\$204.9 million for the six months ended 30 June 2019.

For the six months ended 30 June 2020, turnover in the PRC market decreased by 47.6% or HK\$72.1 million from HK\$151.6 million for the six months ended 30 June 2019 to HK\$79.5 million; and turnover in Taiwan increased by 44.7% or HK\$23.1 million from HK\$51.7 million for the six months ended 30 June 2019 to HK\$74.9 million for the six months ended 30 June 2020.

Sales from other regions, including Hong Kong, Macau and Malaysia, increased by 37.6% to HK\$2.2 million for the six months ended 30 June 2020. Sales contribution from these regions remained to be at an insignificant level of just 1.4% of the Group's turnover for the six months ended 30 June 2020.

The Group's overall gross profit margin declined from 64.0% for the six months ended 30 June 2019 to 59.1% for the six months ended 30 June 2020 mainly due to the new beauty apparatus sold to franchisees which changed the revenue mixture of the group's product/beauty apparatus/service packages, the offering of large promotional discounts on the new spa and medical cosmetology services and the sales platforms used by the Group during the period under review.

Turnover by activities	1H 2020	1H 2019	Changes	
	HK\$'000	HK\$'000	HK\$'000	%
Products				
PRC	78,506	144,589	(66,083)	(45.7%)
Taiwan	72,280	50,390	21,890	43.4%
Others	2,152	1,564	588	37.6%
Total	<u>152,938</u>	<u>196,543</u>	<u>(43,605)</u>	<u>(22.2%)</u>
Services				
PRC	988	7,006	(6,018)	(85.9%)
Taiwan	2,572	1,339	1,233	92.1%
Total	<u>3,560</u>	<u>8,345</u>	<u>(4,785)</u>	<u>(57.3%)</u>

Turnover by activities	1H 2020		1H 2019		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Products	152,938	97.7%	196,543	95.9%	(43,605)	(22.2%)
Services	3,560	2.3%	8,345	4.1%	(4,785)	(57.3%)
Total	<u>156,498</u>	<u>100.0%</u>	<u>204,888</u>	<u>100.0%</u>	<u>(48,390)</u>	<u>(23.6)</u>

Products

The Group is principally engaged in manufacturing and sales of a range of products, including skin care, beauty and aroma-therapeutic products, health supplements and make-up products under the “Natural Beauty” brand and new beauty apparatus. Product sales are the Group’s key revenue source and are primarily derived from franchised spas, online and other sales platforms, self-owned spas and concessionary counters at department stores. Product sales for the six months ended 30 June 2020 amounted to HK\$152.9 million, or 97.7% of the Group’s total revenue, representing a decrease of HK\$43.6 million or by 22.2% as compared with product sales of HK\$196.5 million for the six months ended 30 June 2019. The decrease in product sales was mainly due to the decrease in turnover in such segment in the PRC market by 45.7% to HK\$78.5 million for the six months ended 30 June 2020 as compared with HK\$144.6 million for the corresponding period last year.

Service income	1H 2020		1H 2019		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Training income	30	0.8%	162	1.9%	(132)	(81.6%)
Spa/medical cosmetology service income	3,451	96.9%	7,145	85.6%	(3,694)	(51.7%)
Others	<u>79</u>	<u>2.3%</u>	<u>1,038</u>	<u>12.5%</u>	<u>(959)</u>	<u>(92.3%)</u>
Total	<u>3,560</u>	<u>100.0%</u>	<u>8,345</u>	<u>100.0%</u>	<u>(4,785)</u>	<u>(57.3%)</u>

Services

Service income is derived from the services of our self-owned spas, medical cosmetology 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 franchisees to join. As at 30 June 2020, the Group had two self-owned spas and two self-owned medical cosmetology centres in the PRC and nine self-owned spas in Taiwan.

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 2020, service income decreased by 57.3% to HK\$3.6 million as compared with HK\$8.3 million for the corresponding period last year. The decrease in service income was mainly driven by the decrease in turnover of spa services and medical cosmetology service income by 51.7% to HK\$3.5 million as compared with HK\$7.1 million for the corresponding period last year.

Other income and other gains

Other income and other gains increased by HK\$6.0 million or 174.0% from HK\$3.4 million for the six months ended 30 June 2019 to HK\$9.4 million for the six months ended 30 June 2020. Other income and other gains mainly comprised government grants, rental income from other properties, and interest income, of HK\$7.2 million, HK\$1.4 million, and HK\$0.8 million respectively during the six months ended 30 June 2020.

Selling and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover increased to 44.9% for the six months ended 30 June 2020 as compared with 32.6% for the six months ended 30 June 2019. The distribution and selling expenses increased by HK\$3.6 million from HK\$66.7 million for the six months ended 30 June 2019 to HK\$70.3 million for the six months ended 30 June 2020. Salaries increased by HK\$3.5 million from HK\$27.3 million for the six months ended 30 June 2019 to HK\$30.8 million for the six months ended 30 June 2020. Other key expenses included advertising expenses of HK\$15.5 million, depreciation charges of HK\$9.5 million, consultancy and professional expenses of HK\$3.9 million as well as travelling charges of HK\$1.9 million for the six months ended 30 June 2020.

Total administrative expenses increased by HK\$0.7 million, or 1.7%, to HK\$39.6 million for the six months ended 30 June 2020 as compared with HK\$38.9 million for the six months ended 30 June 2019. Administrative expenses mainly comprised consultancy and professional fee of HK\$11.7 million, staff costs and retirement benefits of HK\$13.3 million, depreciation charges of HK\$5.0 million and office and utility expenses of HK\$2.3 million.

Other expenses and other losses

Other expenses and other losses increased by HK\$1.8 million, from HK\$1.6 million for the six months ended 30 June 2019 to HK\$3.4 million for the six months ended 30 June 2020. Other expenses and other losses for the six months ended 30 June 2020 mainly included the losses on disposal of property of HK\$2.1 million, related expenses of rental property of HK\$0.8 million and interest expenses of lease liabilities of HK\$0.6 million.

Loss before tax

Taking into account the decrease in gross profit, profit before tax decreased by 144.4% from profit of HK\$25.3 million for the six months ended 30 June 2019 to loss of HK\$11.2 million for the six months ended 30 June 2020.

Taxation

Taxation expenses decreased by HK\$13.5 million and became a tax credit of HK\$4.8 million for the six months ended 30 June 2020 as compared with income tax expenses of HK\$8.7 million for the six months ended 30 June 2019. The effective tax rates of the Group for the six months ended 30 June 2019 and 2020 were 34.5% and 42.5% respectively.

Loss for the period

Profit for the period decreased by 139% from a profit of HK\$16.6 million for the six months ended 30 June 2019 to a loss of HK\$6.4 million for the six months ended 30 June 2020.

Liquidity and financial resources

Cash generated from (used in) operating activities for the six months ended 30 June 2020 was approximately HK\$9.0 million (HK\$0.1 million for the six months ended 30 June 2019). As at 30 June 2020, the Group had bank balances and cash of approximately HK\$129.6 million (HK\$145.7 million as at 31 December 2019) with approximately HK\$52.1 million (approximately HK\$25.0 million as at 31 December 2019) being external bank borrowing.

In terms of gearing, as at 31 December 2019 and 30 June 2020, the Group's gearing ratios (defined as net debt divided by shareholders' equity) were 4.4% and 9.4% respectively. Current ratios (defined as current assets divided by current liabilities) of the Group as at 31 December 2019 and 30 June 2020 were 2.27 times and 2.10 times respectively. As at 30 June 2020, the Group had no material contingent liabilities other than those disclosed in its financial statements and the notes thereto. With the cash and bank balances on hand, the Group's liquidity position remained strong 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 (“**RMB**”) and New Taiwan Dollars (“**NTD**”) as its operations are mainly located in the PRC and Taiwan. As at 30 June 2020, approximately 69.5% (81.5% as at 31 December 2019) of the Group's bank balances and cash were denominated in RMB, while approximately 19.9% (9.7% as at 31 December 2019) were in NTD. The remaining 10.6% (8.0% as at 31 December 2019) were denominated in US Dollars, Hong Kong Dollars and Malaysian Ringgit. The Group continues to adopt a conservative approach in its foreign exchange exposure management. The Group reviews its foreign exchange risks periodically and uses derivative financial instruments to hedge against such risks when necessary.

BUSINESS REVIEW

Turnover by geographic region	1H 2020 HK\$'000	1H 2019 HK\$'000	Changes	
			HK\$'000	%
PRC				
Products	78,506	144,589	(66,083)	(45.7%)
Services	988	7,006	(6,018)	(85.9%)
PRC Total	<u>79,494</u>	<u>151,595</u>	<u>(72,101)</u>	<u>(47.6%)</u>
Taiwan				
Products	72,280	50,390	21,890	43.4%
Services	2,572	1,339	1,233	92.1%
Taiwan Total	<u>74,852</u>	<u>51,729</u>	<u>23,123</u>	<u>44.7%</u>
Others				
Products	2,152	1,564	588	37.6%
Others Total	<u>2,152</u>	<u>1,564</u>	<u>588</u>	<u>37.6%</u>

The PRC Market

The Group's turnover in the PRC market decreased by 47.6% for the six months ended 30 June 2020 to HK\$79.5 million as compared with HK\$151.6 million for the six months ended 30 June 2019. Gross margin of product sales was 61.6% for the six months ended 30 June 2020 as compared with 67.6% for the six months ended 30 June 2019. The key reasons to the aforementioned changes are the changes in the mixture of products with different marginal gross profit and the revenue mixture of the Group's product/beauty apparatus/service package as well as the offering of large promotional discounts to the new spa and medical cosmetology services in PRC for the six months ended 30 June 2020.

The Taiwan Market

The Group's turnover in the Taiwan market increased by 44.7% from HK\$51.7 million for the six months ended 30 June 2019 to HK\$74.9 million for the six months ended 30 June 2020. The significant increase in sales of NB Taiwan was mainly driven by the increase in revenue from product sales through direct-sale stores, online and other sales platforms. Gross margin decreased from 71.2% for the six months ended 30 June 2019 to 54.9% for the six months ended 30 June 2020. The key reason of the decrease in gross margin is that the marginal gross profit of the existing sales platforms is lower than the marginal gross profit of the original channels adopted by the Group during the six months ended 30 June 2019.

Distribution channels

Store Number by Ownership	Franchisee owned Spa	Self-owned Spa	Total Spa	Self-owned		Total
				Self-owned Counter	Medical Cosmetology	
As at 30 June 2020						
PRC	859	2	861	9	2	872
Taiwan	286	9	295	-	-	295
Others	25	-	25	-	-	25
Total	1,170	11	1,181	9	2	1,192

Store Number by Ownership	Franchisee owned Spa	Self-owned Spa	Total Spa	Self-owned		Total
				Self-owned Counter	Medical Cosmetology	
As at 30 June 2019						
PRC	797	2	799	11	2	812
Taiwan	258	5	263	-	-	263
Others	27	-	27	-	-	27
Total	1,082	7	1,089	11	2	1,102

Average sales per store	1H 2020	1H 2019	1H 2020	1H 2019	Changes	
	Average store*	Average store*	Average sales per store HK\$	Average sales per store HK\$	HK\$	%
PRC	874.0	801.5	91,000	189,000	(98,000)	(51.9%)
Taiwan	287.5	253.5	260,000	204,000	56,000	27.5%
Group total**	1,161.5	1,055.0	133,000	193,000	(60,000)	(31.1%)

* Average store number is calculated by (opening period total + closing period total)/2

** Group total does not include Hong Kong, Macau and Malaysia turnover and store count.

The Group derives its income principally from its network of distribution channels, including spas and concessionary counters in department stores. As at 30 June 2020, there were 1,181 spas, 9 concessionary counters and 2 medical cosmetology centers. Of these, 1,170 were franchised spas, while 11 spas, 9 concessionary counters and 2 medical cosmetology were directly operated by the Group. No concessionary counters were entrusted to third-party operators. Franchised spas were owned by the franchisees who were responsible for capital investment in these spas. They were 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 were provided in all spas, while skin care analysis was widely available at the concessionary counters in department stores.

Group-wide, a total of 31 new stores were opened and 22 stores were closed during the six months ended 30 June 2020. Average sales per store decreased from HK\$193,000 for the six months ended 30 June 2019 to HK\$133,000 for the six months ended 30 June 2020.

Research and Development

The Group puts significant emphasis on research and development (“**R&D**”) which allows it to maintain its competitive edge, 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 use for its NB products are imported from Europe, Japan and Australia. The Group’s R&D team comprises a number of overseas consultants with experience and expertise in cosmetics, medicine, pharmacy and bio-chemistry. NB 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 experience to continue to develop 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.

Natural Beauty 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 2020, the Group’s flagship NB-1 products accounted for 19.1% of total product sales. Sales of NB-1 branded products reached HK\$28.8 million for the six months ended 30 June 2020.

It's worth noting that the introduction of NB Probiotic Solid Beverage has increased its share in the total product sales of the Group in the first half of 2020. In the first half of 2020, sales of dietary supplement was up 51.6% from the same period last year, increasing its share in total product sales of the Group from 5.2% for the six months ended 30 June 2019 to 10.1% for the six months ended 30 June 2020.

Human Resources

As at 30 June 2020, the Group had a total of 655 employees, of whom 369 were based in the PRC, 276 in Taiwan and 10 in other countries and regions. Total remuneration (excluding directors' emoluments) for the six months ended 30 June 2020 was approximately HK\$59.2 million (HK\$61.7 million for the six months ended 30 June 2019), including retirement benefit related costs of HK\$1.8 million (HK\$9.4 million for the six months ended 30 June 2019). There were no stock option expenses for the six months ended 30 June 2020 (nil for the six months ended 30 June 2019). Competitive remuneration packages are maintained to attract, retain and motivate capable staff members and are reviewed on 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 regular basis.

Capital Expenditure

The Group's capital expenditure of HK\$38.9 million for the six months ended 30 June 2020 was mainly related to the new plant construction in the PRC amounting to HK\$21.3 million, opening of new stores, renovation and equipment amounting to HK\$16.0 million and IT infrastructure amounting to HK\$0.5 million.

Right-of-use Assets and Lease Liability

The related right-to-use assets and lease liabilities are mainly located in the PRC and Taiwan. As at 30 June 2020, the Group's right-of-use assets were HK\$74.9 million (HK\$77.0 million as at 30 June 2019) and its lease liabilities were HK\$26.0 million (HK\$27.8 million as at 30 June 2019). For the six months ended 30 June 2020, depreciation charges of right-of-use assets amounted to HK\$8.0 million and interest charges of lease liabilities amounted to HK\$0.6 million.

Pledged assets

As at 30 June 2020, the following assets of the Group were pledged as securities, among others, for the banking facilities granted by its banks:

- (i) Charge over the buildings with carrying amount of approximately HK\$68,944,000 (at 31 December 2019: approximately HK\$78,364,000);
- (ii) Charge over the right-of-use assets with carrying amount of approximately HK\$6,530,000 (at 31 December 2019: approximately HK\$6,792,000);
- (iii) Charge over the freehold land located in Taiwan with carrying amount HK\$17,446,000 (at 31 December 2019: approximately HK\$17,220,000); and
- (iv) Personal guarantee of a director of the Company's subsidiaries.

OUTLOOK

In 2020, the Group is facing challenges. In face of COVID-19, physical spas cannot operate due to the pandemic. Although webcasting and cloud store franchising were implemented, revenue was still affected. The revenue of the subsidiaries of the Group in the PRC has dropped significantly in the first half of 2020, but the Group did not stop investment in its PRC business due to the short-term decrease in revenue.

In 2020, the subsidiaries of the Group in the PRC adjusted the composition of the management team and employed more business management talents to strengthen sales management and business development in all regions of the PRC. At the same time, the boards of directors of the mainland subsidiaries were reorganized, a professional internal control optimization company was hired and a series of internal control optimization mechanism were launched to eliminate potential internal control defects at the highest standard. E-commerce in the PRC market has shown a growth curve and the product manufacturing business for third parties has also begun in the first half of 2020, both of which will contribute to revenue in the second half of 2020.

Revenue in the Taiwan market continued to grow despite the pandemic and sales through multiple channels continued to grow.

Looking ahead, the Group will continue to attract high-level talents, broaden multiple-channel sales network, open up new markets and actively create more momentum to be driven by new business opportunities.

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 Listing Rules. These committees (save for the 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 2020 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.

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, reviewing financial, marketing, retail, operation and other business performance as well as reviewing and approving annual budget and key performance indicators 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 save as the non-compliance with the Listing Rules in relation to financial reporting as stated in the paragraph below, the Company has fully complied with all the code provisions set out in the CG Code throughout the six months ended 30 June 2020.

During the six months ended 30 June 2020, the Company has announced the 2019 annual results which have yet to be agreed with the auditors. As the Company requires additional time to complete the Forensic Review, address the issues for completion of the audit for the consolidated financial statements for the year ended 31 December 2019 and finalise the outstanding audited results announcements and reports for the year ended 31 December 2019, the Company has breached the financial reporting provisions under 13.49(2) and 13.46(2)(a) in respect of delay in publication of the audited 2019 annual results and delay in despatch of the 2019 annual report. Further, the Company has failed to convene an annual general meeting within the period of 6 months after the financial year ended on 31 December 2019.

Audit for the financial statements ended 31 December 2019 had been completed and the announcement in relation to the audited annual results for the year ended 31 December 2019 was published on 30 November 2020.

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 has been complied with throughout the six months ended 30 June 2020 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 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

INTERIM DIVIDEND

No interim dividend for the six months ended 30 June 2020 was declared (2019: Nil).

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE’S AND THE COMPANY’S WEBSITE

This interim results announcement is 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 2020 of the Company containing all the information required by paragraph 37 of Appendix 16 to the Listing Rules will be despatched to the shareholders and will be published on the website of the Stock Exchange and that of the Company in due course.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended at the request of the Company since 9:00 a.m. on 25 March 2020 and will remain suspended until further notice. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Natural Beauty Bio-Technology Limited
Lei Chien
Chairperson

Hong Kong, 2 December 2020

As at the date of this announcement, the Board comprises Dr. Lei Chien and Mr. Pan Yi-Fan as executive directors; Mr. Hsiao Wen-Chung, Ms. Lu Yu-Min, Ms Lin Shu-Hua and Mr. Chen Shou-Huang as non-executive directors; and Mr. Chen Ruey-Long, Mr. Lu Chi-Chant and Mr. Yang Shih-Chien as independent non-executive directors.