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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 2009

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 2009, together with the comparative figures for 2008, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2009
(With comparatives for the six months ended 30 June 2008)
(Expressed in thousands of Hong Kong dollars (HK$'000))

	Notes	**For the six months ended 30 June** **2009 (unaudited)** ***HK$'000***	2008 (unaudited) *HK$'000*
Revenue	*4*	**255,329**	315,651
Cost of sales		**(46,672)**	(50,679)
Gross profit		**208,657**	264,972
Other income		**19,221**	23,107
Distribution and selling expenses		**(56,966)**	(69,168)
Administrative expenses		**(48,901)**	(38,535)
Other expenses		**(3,133)**	(12,089)
Profit before taxation		**118,878**	168,287
Income tax expense	*5*	**(10,007)**	(18,509)
Profit for the period	*6*	**108,871**	149,778
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**2,576**	42,791
Total comprehensive income for the period		**111,447**	192,569
Profit for the period attributable to:			
Owners of the Company		**108,958**	149,655
Non-controlling interests		**(87)**	123
		108,871	149,778
Total comprehensive income attributable to:			
Owners of the Company		**111,529**	192,055
Non-controlling interests		**(82)**	514
		111,447	192,569
Dividends – proposed	*7*	**70,055**	100,032
Earnings per share	*8*		
– Basic		**5.45 HK cents**	7.48 HK cents
– Diluted		**5.45 HK cents**	7.48 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2009
(with comparatives at 31 December 2008)
(Expressed in thousands of Hong Kong dollars (HK$'000))

	Notes	At 30 June 2009 (unaudited) HK$'000	At 31 December 2008 (audited) HK$'000
Non-current assets			
Investment properties		**4,466**	4,486
Property, plant and equipment		**227,345**	230,569
Prepaid lease payments		**9,684**	9,809
Goodwill		**25,797**	25,766
Available-for-sale investments		**5,926**	5,926
Deferred taxation assets		**12,909**	9,156
		286,127	285,712
Current assets			
Inventories		**109,312**	100,859
Trade and other receivables	*9*	**101,548**	92,744
Prepaid lease payments		**278**	278
Pledged bank deposit		**428**	428
Bank balances and cash		**593,458**	546,205
		805,024	740,514
Current liabilities			
Trade and other payables	*10*	**84,363**	105,957
Dividend payable		**67,030**	22
Deferred income		**10,385**	10,374
Taxation payable		**16,020**	41,207
		177,798	157,560
Net current assets		**627,226**	582,954
Total assets less current liabilities		**913,353**	868,666
Non-current liability			
Retirement benefit obligations		**12,436**	12,259
		900,917	856,407
Capital and reserves			
Share capital		**200,064**	200,064
Reserves		**694,488**	649,896
Equity attributable to owners of the Company		**894,552**	849,960
Non-controlling interests		**6,365**	6,447
Total equity		**900,917**	856,407

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2009

(With comparatives for the six months ended 30 June 2008 and as of 31 December 2008)

(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 2008, 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 2009.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008
HKFRSs (Amendments)	Improvements to HKFRSs April 2009
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of the new HKFRSs, except for HKAS 1 (Revised) as described below, had no material effect on the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been recognised.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective at 30 June 2009.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs April 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[3]
HKFRS 3 (Revised)	Business Combinations[3]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[5]

[1] Amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1 July 2009.
[4] Effective for annual periods ending on or after 30 June 2009.
[5] Effective for transfers of assets from customers received on or after 1 July 2009.

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.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and 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 2009			
	PRC (unaudited) *HK$'000*	**Taiwan (unaudited)** *HK$'000*	**Others (unaudited)** *HK$'000*	**Total (unaudited)** *HK$'000*
Revenue	**191,042**	**59,706**	**4,581**	**255,329**
Segment results	**112,966**	**15,115**	**(5,093)**	**122,988**
Unallocated corporate expenses				**(7,347)**
Unallocated income				**3,237**
Profit before taxation				**118,878**
Income tax expense				**(10,007)**
Profit for the period				**108,871**

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

(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 2009			For the six months ended 30 June 2008		
	Revenue (unaudited)	**Other income (unaudited)**	**Capital expenditure (unaudited)**	Revenue (unaudited)	Other income (unaudited)	Capital expenditure (unaudited)
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Cosmetics products and beauty services	**255,329**	**–**	**15,451**	315,651	–	7,549
Investment properties	**–**	**66**	**–**	–	73	–
Others	**–**	**19,155**	**–**	–	23,034	–
	255,329	**19,221**	**15,451**	315,651	23,107	7,549

	Segment Assets	
	At 30 June 2009 (unaudited)	At 31 December 2008 (audited)
	HK$'000	*HK$'000*
Cosmetics products and beauty services	**474,845**	461,580
Investment property	**4,466**	4,486
	479,311	466,066

4. REVENUE

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

An analysis of revenue by major categories is as follows:

	For the six months ended 30 June	
	2009 (unaudited)	2008 (unaudited)
	HK$'000	*HK$'000*
Sales of goods	**248,607**	307,795
Service income	**6,566**	7,590
Entrustment fee income	**156**	266
	255,329	315,651

5. 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 2009 (2008: 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	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Group:		
Overseas taxation	**6,254**	18,407
Deferred taxation	**3,753**	102
Taxation for the period	**10,007**	18,509

6. PROFIT FOR THE PERIOD

Profit for the period in the condensed consolidated statement of comprehensive income was determined after crediting and charging the following items:

	For the six months ended 30 June	
	2009	2008
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Crediting:		
Interest income on bank deposits	**1,473**	3,384
Gain on held-for-trading investments	**12**	1,842
Foreign exchange gain	**1,740**	12,506
Charging:		
Net (gain) loss on disposals of property, plant and equipment	**(3,114)**	251
Staff costs, excluding directors' emoluments		
– Salaries and wages	**46,537**	43,706
– Pension costs		
– PRC	**4,715**	3,530
– Taiwan	**1,191**	1,654
– Hong Kong and other regions	**101**	91
Directors' emoluments (salaries and allowances)*	**403**	2,123
Depreciation of property, plant and equipment	**9,675**	8,359
Allowance for (written back) obsolete inventories	**1,112**	(462)
Provision for doubtful debts	**1,101**	5,245
Written off of uncollectible financial refunds receivable	**–**	4,431
Operating lease expense on land and buildings	**14,175**	8,418
Research and development costs	**1,696**	956

* *Included in directors' remuneration were fees of HK$44,000 (2008: HK$1,494,000), payable to directors during the report period.*

7. DIVIDENDS

The directors proposed an interim dividend of 3.5 HK cents per share (2008: 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 owners of the Company of approximately HK$108,958,000 for the six months ended 30 June 2009 (2008: HK$149,655,000) divided by weighted average number of approximately 2,000,639,430 ordinary shares (2008: 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 owners of the Company of approximately HK$108,958,000 for the six months ended 30 June 2009 (2008: HK$149,655,000) divided by weighted average number of approximately 2,000,639,430 ordinary shares for the purposes of diluted earnings per share (2008: 2,000,136,325 ordinary shares).

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2009 (unaudited) *HK$'000*	At 31 December 2008 (audited) *HK$'000*
Trade receivables	**72,970**	68,265
Less: allowance for doubtful debts	**(4,071)**	(2,963)
	68,899	65,302
Prepayments and deposits	**13,132**	16,713
Other receivables	**19,517**	10,729
Total trade and other receivables	**101,548**	92,744

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 reporting date:

	At 30 June 2009 (unaudited) *HK$'000*	At 31 December 2008 (audited) *HK$'000*
Within 180 days	**58,498**	57,892
181 days to 365 days	**7,069**	3,828
1 to 2 years	**3,332**	3,246
Over 2 years	**–**	336
	68,899	65,302

The fair value of the Group's trade and other receivables at 30 June 2009 was approximate to the corresponding carrying amount.

10. TRADE AND OTHER PAYABLES

	At **30 June 2009** **(unaudited)** ***HK$'000***	At 31 December 2008 (audited) *HK$'000*
Trade payables	**16,149**	14,035
Deposits from customers	**26,313**	25,730
Other tax payables	**7,513**	9,998
Other payables	**34,388**	56,194
Total trade and other payables	**84,363**	105,957

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

	At **30 June 2009** **(unaudited)** ***HK$'000***	At 31 December 2008 (audited) *HK$'000*
Within 180 days	**16,127**	13,814
181 days to 365 days	**–**	199
1 to 2 years	**–**	22
Over 2 years	**22**	–
	16,149	14,035

The fair value of the Group's trade and other payables at 30 June 2009 was approximate to the corresponding amount.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by geographical region	1H2009		1H2008		Changes	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PRC	**191,042**	**74.8%**	235,452	74.6%	(44,410)	-18.9%
Taiwan	**59,706**	**23.4%**	75,847	24.0%	(16,141)	-21.3%
Others	**4,581**	**1.8%**	4,352	1.4%	229	5.3%
Total	**255,329**	**100.0%**	315,651	100.0%	(60,322)	-19.1%

For the six months ended 30 June 2009, turnover of the Group declined 19.1% to HK$255.3 million as compared with HK$315.7 million recorded in the same period last year.

Turnover in the PRC market decreased by 18.9% to HK$191.0 million for the six months ended 30 June 2009. The decrease in turnover was mainly due to a decrease of HK$43.4 million in product sales. At the same time, service income decreased by 25.3% from HK$3.4 million for the six months ended 30 June 2008 to HK$2.6 million for the corresponding period of 2009. In Taiwan, turnover dropped by 21.3% to reach HK$59.7 million for the first six months of 2009 as compared with HK$75.8 million for the same period of 2008. Product sales amounted to HK$2.2 million, was directly attributable to the retail brand products of Fonperi compared to HK$7.9 million for the same period of 2008. The declines in product sales and service income were mainly due to lingering impact of the global financial turmoil on the Greater China region since the third quarter of 2008. With market uncertainties weakening consumer sentiments, customers tended to curtail their spending and delay their buying decisions. Also, the Group raised the selling price of products in June 2008 and franchisees had stocked up on more goods than usual. Therefore, the revenue base for the first half of last year was relatively higher.

Sales in other regions such as Hong Kong, Macau and Malaysia increased slightly by 5.3% to HK$4.6 million. The turnover contribution from these regions remained insignificant and accounted for less than 2% of total turnover.

The Group's overall gross profit margin remained high and stood at 81.7% during the period under review.

Turnover by activities	**1H2009**	1H2008	**Changes**	
	HK$'000	***HK$'000***	*HK$'000*	*%*
Products				
PRC	**188,321**	231,753	(43,432)	-18.7%
Taiwan	**56,093**	72,112	(16,019)	-22.2%
Others	**4,193**	3,930	263	6.7%
Total	**248,607**	307,795	(59,188)	-19.2%
Services				
PRC	**2,565**	3,433	(868)	-25.3%
Taiwan	**3,613**	3,735	(122)	-3.3%
Others	**388**	422	(34)	-8.1%
Total	**6,566**	7,590	(1,024)	-13.5%
Entrustment				
PRC	**156**	266	(110)	-41.4%
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**156**	266	(110)	-41.4%

Turnover by activities	**1H2009**		1H2008		**Changes**	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Products	**248,607**	**97.4%**	307,795	97.5%	(59,188)	-19.2%
Services	**6,566**	**2.5%**	7,590	2.4%	(1,024)	-13.5%
Entrustment	**156**	**0.1%**	266	0.1%	(110)	-41.4%
Total	**255,329**	**100.0%**	315,651	100.0%	(60,322)	-19.1%

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 six months ended 30 June 2009, products sales amounted to HK$248.6 million, or 97.4% of total revenue, representing a decrease of HK$59.2 million when compared with the amount of HK$307.8 million, which accounted for 97.5% of total revenue for the six months ended 30 June 2008. The decrease in product sales was mainly due to the sluggish economy. Despite the decline in product sales, gross margin of product sales for the period remained stable at 87.5% compared with 87.6% in the last corresponding period.

Other markets such as Hong Kong, Macau and Malaysia only accounted for 1.7% of total product sales for the period.

Service income	**1H2009**		1H2008		**Changes**	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Training income	**694**	**10.6%**	819	10.8%	(125)	-15.3%
SPA service income	**4,848**	**73.8%**	5,799	76.4%	(951)	-16.4%
Management fee income	**26**	**0.4%**	238	3.1%	(212)	-89.1%
Others	**998**	**15.2%**	734	9.7%	264	36.0%
Total	**6,566**	**100.0%**	7,590	100.0%	(1,024)	-13.5%

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 treatment, beauty and spa services through our self-owned spas. It is necessary to establish self-owned stores as model spas in new markets, and the Group considers this a more profitable and cost-efficient way as a whole to allocate resources to stimulate overall product sales.

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 utilities. During the period under review, income from services decreased by 13.5% to HK$6.6 million when compared with HK$7.6 million for the six months ended 30 June 2008. The decrease was mainly due to the shrinkage in SPA service income by approximately HK$1.0 million, resulting from the global and local economic downturn during the first six months of 2009.

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 for periods 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.

For the six months ended 30 June 2009, entrustment income recorded a further decrease of 41.4% to HK$0.2 million when compared with HK$0.3 million for the six months ended 30 June 2008. The drop in entrustment income was attributable to the expiration of certain entrustment arrangements during the first six months of 2009. There was no entrusted spa as at 30 June 2009.

Other income

Other income mainly comprised interest income, foreign exchange gain, financial refunds, gain on disposal of property, plant and equipments, which amounted to HK$1.5 million, HK$1.7 million, HK$5.2 million, HK$3.1 million and the remaining balance respectively. Other income decreased by 16.8%, or HK$3.9 million from HK$23.1 million for the first six months of 2008 to HK$19.2 million for the same period of 2009. The decrease was mainly due to the realized exchange gain from the dividend received from a PRC subsidiary which amounted to HK$12.6 million during the first six months of 2008 when compared with only HK$1.8 million during the corresponding period of 2009. However, the decline of other income was offset by the gain on disposal of the building in Guangzhou and Ningbo, which amounted to HK$3.3 million, and an increase of HK$3.7 million in financial refunds.

Distribution and administrative expenses

The Group's distribution and selling expenses as a percentage of turnover remained stable at 22.3% for the six months ended 30 June 2009 compared with 21.9% for the last corresponding period. Total expenses in dollar terms decreased by HK$12.2 million from HK$69.2 million for the first six months of 2008 to HK$57.0 million for the same period of 2009. During the period under review, the Group continued to reduce media exposure and introduce products offering through "family and friends of our existing customers". Instead of media advertising, free samples and gifts were given to our existing customers and extended the reach through their friends and family members. In percentage terms, advertising and promotion expenses represent 6.9% of total turnover for the six months ended 30 June 2009, when compared with 9.6% for the same period in 2008. Other key expenses mainly included salary, commission, travel and transportation expenses as well as rental expenses, which amounted to HK$12.6 million, HK$2.9 million, HK$4.3 million and HK$9.5 million respectively.

Administrative expenses as a percentage of turnover increased from 12.2% for the six months ended 30 June 2008 to 19.2% for the corresponding period of 2009. The cost mainly covered salary, legal and professional fee, depreciation and rental charges. Total administrative expenses in dollar terms increased by HK$10.4 million to HK$48.9 million for the period under review. The increase was mainly due to the professional fees incurred in privatization and group restructuring projects which amounted to HK$2.0 million and the training fees amounted to HK$1.2 million. Besides, there was a provision of doubtful debts of HK$1.1 million and approximately HK$2.0 million additional rental expenses was paid for the new headquarter in Taiwan in the first six months of 2009.

Other expenses

Other expenses decreased from HK$12.1 million for the six months ended 30 June 2008 to HK$3.1 million for the corresponding period of 2009, representing a drop of HK$9.0 million or 74.1%. Other expenses mainly included bank charges of HK$1.5 million and provision for obsolete stocks amounting to HK$1.1 million. The decrease in other expenses was mainly due to the donations amounting to HK$3.9 million made after the Sichuan Earthquake in May 2008 and write-off of uncollectible financial refunds receivables amounting to HK$4.4 million during the first six months of 2008.

Profit before taxation

A decrease in gross profit and other income, an increase in administrative expenses netting a decrease of other expenses and distribution and selling expenses, contributed to the decline of 29.4% in profit before tax from HK$168.3 million for the six months ended 30 June 2008 to HK$118.9 million for the corresponding period of 2009.

Taxation

Taxation expenses decreased 45.9% from HK$18.5 million for the first six months of 2008 to HK$10.0 million for the same period in 2009. The effective tax rates of the Group for the six months ended 30 June 2008 and 2009 were 11.0% and 8.4% respectively. The decrease in taxation expenses was due to the drop in profit in both markets during the period under review, while lower effective tax rate as a result of no dividend withholding tax was required for the six months ended 30 June 2009 (1H2008: HK$6.3 million).

Profit for the period

As a result, profit for the period declined by 27.3% from HK$149.8 million for the first six months of 2008 to HK$108.9 million for the same period of 2009.

Liquidity and financial resources

Cash generated from operating activities for the six months ended 2009 was approximately HK$46.6 million (for the six months ended 30 June 2008: HK$169.0 million). The decrease was primarily due to a decrease in profit, increase in taxes paid and changes in working capital. As at 30 June 2009, the Group had bank balances and cash of approximately HK$593.5 million (as at 31 December 2008: HK$546.2 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2008 and 30 June 2009, the Group's gearing ratios were zero (defined as net debt divided by shareholders' equity) as the Group was in net cash balance as at both year/period end dates. Current ratios of the Group (defined as current assets divided by current liabilities) as at 31 December 2008 and 30 June 2009 were 4.7 times and 4.5 times respectively. As at 30 June 2009, 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 to meet working capital requirements.

Charges on assets

As at 30 June 2009, the Group had a pledge of bank deposit of HK$428,000 (as at 31 December 2008: HK$428,000) in order to ensure that one of its wholly owned subsidiaries complied with the terms stipulated in a Tenancy Agreement which had been entered into with the landlord so as to obtain a right of use of a self-owned store in Macau.

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of the revenue denominated in Renminbi and New Taiwan Dollar from the PRC and Taiwan as our operations are mainly located in these two areas. As at 30 June 2009, approximately 26.5% (as at 31 December 2008: 56.7%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 7.7% (as at 31 December 2008: 10.1%) in New Taiwan Dollars. The remaining 65.8% (as at 31 December 2008: 33.2%) was denominated in US Dollars, Hong Kong Dollars, Macau Pataca and Malaysia Ringgits. The Group continued to adopt a conservative approach in terms 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

Turnover by geographic region	1H2009	1H2008	Changes	
	HK$'000	*HK$'000*	*HK$'000*	%
PRC				
Products	**188,321**	231,753	(43,432)	-18.7%
Services	**2,565**	3,433	(868)	-25.3%
Entrustment	**156**	266	(110)	-41.4%
PRC Total	**191,042**	235,452	(44,410)	-18.9%
Taiwan				
Products	**56,093**	72,112	(16,019)	-22.2%
Services	**3,613**	3,735	(122)	-3.3%
Entrustment	**–**	–	–	n/a
Taiwan Total	**59,706**	75,847	(16,141)	-21.3%
Others				
Products	**4,193**	3,930	263	6.7%
Services	**388**	422	(34)	-8.1%
Entrustment	**–**	–	–	n/a
Others Total	**4,581**	4,352	229	5.3%

PRC Market

The adverse effect of the financial turmoil that erupted in the third quarter of 2008 could be felt across the board and all industries. The threat of global recession had seriously affected customers' attitude towards consumption, leading product sales in the PRC market to fall by 18.7% to HK$188.3 million for the six months ended 30 June 2009. This was compared with HK$231.8 million for the same period in last year. The product gross margin still remained at a high rate of 87.0% (1H2008: 87.0%).

Operating profit and net profit decreased by HK$22.3 million and HK$19.1 million respectively for the period under review.

Taiwan Market

During the first six months of 2009, product sales in Taiwan market also declined by 22.2% to HK$56.1 million as compared with HK$72.1 million for the same period last year. Operating profit and net profit decreased by HK$13.0 million and HK$14.4 million.

Distribution channels

Store Number by Ownership As at 30 June 2009	Franchisee-owned Spa	Entrusted Spa	Self-owned Spa	Total Spa	Entrusted Counter	Self-owned Counter	Total Counter	Group Total	Retail Channel	Grand Total
Taiwan	432	–	9	441	–	–	–	441	3,351	3,792
PRC	1,322	–	7	1,329	17	46	63	1,392	–	1,392
Others	53	–	2	55	–	–	–	55	–	55
Total	1,807	–	18	1,825	17	46	63	1,888	3,351	5,239

Store Number by Ownership As at 30 June 2009	Franchisee-owned	Entrusted	Self-owned	Retail Channel	Total
Taiwan	432	–	9	3,351	3,792
PRC	1,322	17	53	–	1,392
Others	53	–	2	–	55
Total	1,807	17	64	3,351	5,239

Average sales per store	1H2009 Average store*	1H2008 Average store*	1H2009 Average sales per store	1H2008 Average sales per store	Changes	
			HK$	*HK$*	*HK$*	%
PRC	1,451.0	1,481.0	132,000	159,000	(27,000)	-17.0%
Taiwan	444.0	457.0	129,000	149,000	(20,000)	-13.4%
Group total**	1,895.0	1,938.0	131,000	157,000	(26,000)	-16.6%

* *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.*

The Group principally derives its income from our unique distribution channels, namely spas and counters in department stores. As at 30 June 2009, there were 1,825 spas and 63 counters. All spas provide a variety of services, including hydrotherapy, facial treatment, body care and skin care analysis, whereas counters in department stores usually provide skin care analysis.

As at 30 June 2009, there were a total of 1,807 franchisee spas, and 18 spas and 46 counters which are directly operated by the Group. There were also 17 counters entrusted to reputable operators.

A total of 95 new stores were opened and 219 stores closed during the period under review. The closure was mainly due to franchisees' violation of franchise terms as concluded by our store audit carried out during the first six months of 2009. Franchisees who sold non-Natural Beauty products, failed to achieve minimum targets or to attend our free and compulsory training programs would have the franchise arrangement terminated. Through the elimination of those non-compliant stores, a good and consistent franchise network is maintained, thus ensuring the service quality for consumers.

As a result of the drop in sales and decrease in the number of stores, the average sales per store in PRC decreased by only 17.0% from HK$159,000 during the review period of 2008 to HK$132,000 for the same period in 2009. In Taiwan, average sales per store were down 13.4%, from HK$149,000 to HK$129,000, for the first six months of 2009.

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

Retail Business

Since the launch of Fonperi products, the number of retail outlets in Taiwan has decreased from 3,628 as at 31 December 2008 to 3,351 points of sales as at 30 June 2009. They include Watsons, Carrefour, Geant, RT-Mart, Wellcome, and FamilyMart.

We will scale down the operation of the retail business and put more focus on our high margin core business.

Research and Development

The Group puts much emphasis on research and development, so as to maintain our competitive edge, 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 to 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 the use of new ingredients developed by its research and development team. The Group believes that the collaboration of experts with different expertise and experience, 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 to manufacture the products and adopts special formulation to cater to the specific needs of women with delicate skin. NB's products are attentive to the natural metabolism of skin with long-lasting effects.

In terms of 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, with a view to ensuring the high quality, effectiveness and safety standard of NB's products. When a product requires registration with relevant authorities, it will be done before it is launched in the market. All NB products are carefully produced to meet all relevant regulations.

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. With Dr. Tsai's over 30 years of experience in the beauty and skin care industry and the strong professional portfolio of our research and development staff members, 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 2009 amounted to HK$1.7 million compared with HK$1.0 million for the six months ended 30 June 2008.

New Products

Our flagship product, NB-1 products family includes anti-aging NB-1 series, NB-1 Whitening series, NB-1 anti-allergy, NB-1 pore refining series, etc. For the first six months of 2009, over 114,000 sets/bottles (1H2008: 156,000 sets/bottles) of NB-1 family products were sold with a turnover of HK$84.0 million (1H2008: HK$111.5 million), accounting for more than one-third of total product sales recorded during the period under review.

Despite the lower product sales recorded in the skin care and cosmetic categories for the first six months of 2009, sales of health food and supplement products registered remarkable growth of 69.5% from HK$20.4 million to HK$34.6 million. Thus, the Group considers health food and supplement products as one of the growth drivers in 2009.

Our retail brand products of "Fonperi" in Taiwan were 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 3,351 retails points of sales selling "Fonperi" products in Taiwan which generated turnover of HK$2.2 million during the period under review.

During first six months of 2009, the Group continued to enrich the product range and launched 32 new products, including 11 new health supplement products.

Human Resources

As at 30 June 2009, the Group had a total of 1,062 employees, of whom 828 were based in PRC, 215 in Taiwan and 19 in other areas. Total remuneration (excluding directors' emoluments) for the period ended 30 June 2009 was approximately HK$52.5 million (1H2008: HK$49.0 million), including retirement benefits cost of HK$6.0 million (1H2008: HK$5.3 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a regular basis.

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

In addition, the Group adopted a share option scheme on 11 March 2002, with a view to providing incentives and rewards 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 or any qualified person as set out in the scheme, to subscribe for shares. As an additional employee incentive, the Company will pay the relevant option holder a cash bonus in the amount of the total exercise price payable for the exercise of the options. The option holders are required to use any such cash bonus towards payment of the exercise price of the relevant options.

Capital Expenditures

The Group's major capital expenditures were related to self-owned spas and machinery in our factories. There were HK$15.5 million additions to fixed assets for the first six months of 2009 (1H2008: HK$7.5 million), comprising renovation cost and the cost incurred as a result of additional furniture and fixtures for our new Taiwan office amounting to HK$5.4 million.

Franchisees are responsible for the capital expenditures of their spas.

OUTLOOK

The second half of the financial year continues to be extremely challenging. However, the Group believes that the PRC market is relatively more resilient than other countries and it would be one of the emerging markets to outperform other countries or regions in 2009. The domestic consumer market in Taiwan rebounded in 2009 mainly due to the opening up of the tourism industry to PRC visitors and the rally of the stock market in recent months. The Group is confident of benefiting from a better consumer sentiment in the second half of the year.

Meanwhile, the Group will also focus on cost effectiveness, enhancing product sales and profits while seeking opportunities for further growth in the second half of 2009.

In both the PRC and Taiwan markets, new products including health food and supplements will be launched to meet customers' changing needs and preferences. We believe that the comprehensive product range will give us flexibility to cope with the market challenges ahead. We will also focus on the franchisee network development through a new store format, "Beauty and Health SPA Specialty Store". This new format has higher productivity and requires lower investment from franchisees. It can also enhance consumers' awareness of the brand "Natural Beauty". We are confident that these measures will enable the Group to be more resilient during the trough of the economic cycle.

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 2009 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 2009, 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 2009 annual general meeting held on 5 June 2009, business circumstances made it impossible. However, although she was unable to attend, Dr. Tsai had 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.

Dr. Su was unable to travel from Taiwan on that day due to personal health issue (not suitable to travel), so Mr. Chen Ching, an independent non-executive director, had chaired the AGM on behalf of the Board.

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 2009, 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 3.5 HK cents per share (2008: interim dividend of 5.0 HK cents per share). The interim dividend will be distributed on or around 18 September 2009 to shareholders whose names appear on the register of members of the Company as at the close of business on 27 August 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 28 August 2009 to 31 August 2009, 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 Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 27 August 2009. The interim dividend will be distributed on or around 18 September 2009.

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 at the date of this announcement, 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, 12 August 2009