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 2019

**HIGHLIGHTS:**

- Turnover increased by 5.8% to HK$204,888,000.
- Net profit decreased by 66.3% to HK$9,764,000.
- No interim dividend was proposed for the six months ended 30 June 2019 (2018: an interim dividend of HK$0.0145 per share).

## RESULTS

The board of directors (the “**Board**”) of Natural Beauty Bio-Technology Limited (“**Natural Beauty**” or the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2019, together with the comparative figures for the first half of 2018, as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*FOR THE SIX MONTHS ENDED 30 JUNE 2019*

*(With comparatives for the six months ended 30 June 2018)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | | **(unaudited)** | (unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Revenue | *3A* | **204,888** | 193,738 |
| Cost of sales | | **(73,724)** | (56,603) |
| Gross profit | | **131,164** | 137,135 |
| Other income and other gains | | **3,420** | 6,516 |
| Impairment losses under expected credit loss model, net of reversal | | **(2,076)** | 3,120 |
| Distribution and selling expenses | | **(76,778)** | (65,388) |
| Administrative expenses | | **(38,920)** | (35,614) |
| Other expenses and other losses | | **(1,607)** | (963) |
| Profit before tax | | **15,203** | 44,806 |
| Income tax expense | *4* | **(5,439)** | (15,806) |
| Profit for the period | *5* | **9,764** | 29,000 |
| **Other comprehensive expense:** | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(2,612)** | (10,717) |
| Total comprehensive income for the period | | **7,152** | 18,283 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **9,764** | 29,000 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **7,152** | 18,283 |
| Earnings per share | *7* | | |
| Basic | | **HK0.49 cents** | HK1.45 cents |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 30 JUNE 2019*

*(With comparatives at 31 December 2018)*

| | Notes | At 30 June 2019 (unaudited) *HK$'000* | At 31 December 2018 (audited) *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | | **7,553** | 7,674 |
| Property, plant and equipment | | **226,622** | 197,207 |
| Right-of-use assets | | **76,952** | – |
| Prepaid lease payments | | **–** | 48,530 |
| Intangible assets | | **16,200** | 17,122 |
| Goodwill | | **31,388** | 31,407 |
| Deposits for purchase of property, plant and equipment | | **–** | 20,528 |
| Deferred tax assets | | **5,469** | 5,234 |
| Pledged bank deposits | | **3,476** | 3,479 |
| | | **367,660** | 331,181 |
| **Current assets** | | | |
| Inventories | | **82,583** | 74,313 |
| Trade and other receivables | *8* | **92,859** | 86,567 |
| Contract costs | | **694** | 798 |
| Amounts due from related parties | | **9,903** | 420 |
| Prepaid lease payments | | **–** | 1,184 |
| Pledged bank deposits | | **–** | 3,479 |
| Bank balances and cash | | **159,616** | 181,024 |
| | | **345,655** | 347,785 |
| **Current liabilities** | | | |
| Trade and other payables | *9* | **95,890** | 93,501 |
| Amounts due to related parties | | **1,151** | – |
| Lease liabilities | | **11,351** | – |
| Contract liabilities | | **21,315** | 22,616 |
| Taxation payable | | **6,867** | 9,695 |
| | | **136,574** | 125,812 |
| **Net current assets** | | **209,081** | 221,973 |
| **Total assets less current liabilities** | | **576,741** | 553,154 |

| | At 30 June 2019 (unaudited) *HK$'000* | At 31 December 2018 (audited) *HK$'000* |
|---|---|---|
| **Non-current liabilities** | | |
| Lease liabilities | **16,455** | – |
| Retirement benefit obligations | **1,279** | 1,299 |
| | **559,007** | 551,855 |
| **Capital and reserves** | | |
| Share capital | **200,210** | 200,210 |
| Reserves | **358,797** | 351,645 |
| **Total equity** | **559,007** | 551,855 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2019*

*(With comparatives for the six months ended 30 June 2018 and as of 31 December 2018)*

*(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 (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

***Application of new and amendments to HKFRSs***

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 16 | *Leases* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| Amendments to HKFRSs | *Annual Improvements to HKFRSs 2015-2017 Cycle* |

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

***Impacts and changes in accounting policies of application on HKFRS 16 Leases***

*Transition and summary of effects arising from initial application of HKFRS 16*

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | *Notes* | **Carrying amounts previously reported at 31 December 2018** | **Reclassification** | **Carrying amounts under HKFRS 16 at 1 January 2019** |
|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current Assets** | | | | |
| Prepaid lease payments | *(a)* | 48,530 | (48,530) | – |
| Right-of-use assets | | – | 81,443 | 81,443 |
| **Current Assets** | | | | |
| Prepaid lease payments | *(a)* | 1,184 | (1,184) | – |
| Trade and other receivables | | | | |
| – Prepayments | *(b)* | 12,134 | (482) | 11,652 |
| **Current Liabilities** | | | | |
| Trade and other payables | | | | |
| – Accrued lease liabilities | *(c)* | 338 | (338) | – |
| Lease liabilities | | – | 10,618 | 10,618 |
| **Non-current Liabilities** | | | | |
| Lease liabilities | | – | 20,967 | 20,967 |

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$1,184,000 and HK$48,530,000, respectively, were reclassified to right-of-use assets.

(b) Upfront payments for some leases were classified as prepayments as at 31 December 2018. Upon application of HKFRS 16, lease prepayments amounting to HK$482,000 was reclassified to right-of-use assets.

(c) Lease payments increase progressively over lease terms

These relate to accrued lease liabilities of several operating leases for leases of properties in which the rentals increase progressively by fixed annual percentage. The carrying amount of the accrued lease liabilities as at 1 January 2019 was adjusted to right-of-use assets at transition.

The application of HKFRS 16 as a lessor had no impact on the Group's condensed consolidated financial statements as at 30 June 2019 and its condensed consolidated statement profit or loss and other comprehensive income for the current interim period.

## 3A. REVENUE

**Disaggregation of revenue**

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Types of goods or services** | | |
| Sales of goods | **196,543** | 187,081 |
| Service income | **8,345** | 6,657 |
| **Total** | **204,888** | 193,738 |
| **Geographical markets** | | |
| The People's Republic of China (the "**PRC**") | **151,595** | 154,055 |
| Taiwan | **51,729** | 38,015 |
| Others | **1,564** | 1,668 |
| **Total** | **204,888** | 193,738 |
| **Timing of revenue recognition** | | |
| A point in time | **196,543** | 187,081 |
| Over time | **8,345** | 6,657 |
| **Total** | **204,888** | 193,738 |

## 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 2019

| | **The PRC (unaudited)** *HK$'000* | **Taiwan (unaudited)** *HK$'000* | **Others (unaudited)** *HK$'000* | **Total (unaudited)** *HK$'000* |
|---|---|---|---|---|
| Revenue from external customers | **151,595** | **51,729** | **1,564** | **204,888** |
| Segment profit | **16,661** | **4,719** | **1,139** | **22,519** |
| Unallocated corporate expenses | | | | **(8,009)** |
| Unallocated income | | | | **693** |
| Profit before tax | | | | **15,203** |

Six months ended 30 June 2018

| | The PRC (unaudited) *HK$'000* | Taiwan (unaudited) *HK$'000* | Others (unaudited) *HK$'000* | Total (unaudited) *HK$'000* |
|---|---|---|---|---|
| Revenue from external customers | 154,055 | 38,015 | 1,668 | 193,738 |
| Segment profit | 41,666 | 6,413 | 1,645 | 49,724 |
| Unallocated corporate expenses | | | | (6,728) |
| Unallocated income | | | | 1,810 |
| Profit before tax | | | | 44,806 |

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 2019 (unaudited)** ***HK$'000*** | At 31 December 2018 (audited) *HK$'000* |
|---|---|---|
| The PRC | **307,843** | 273,219 |
| Taiwan | **50,535** | 49,036 |
| Others | **337** | 213 |
| | **358,715** | 322,468 |

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

## 4. INCOME TAX EXPENSE

| | **Six months ended 30 June** | |
|---|---|---|
| | **2019 (unaudited)** ***HK$'000*** | 2018 (unaudited) *HK$'000* |
| The charge comprises: | | |
| Taxation in the PRC | | |
| Current period | **3,580** | 9,744 |
| Under provision in prior years | **570** | – |
| Withholding tax on dividends | **–** | 6,046 |
| | **4,150** | 15,790 |
| Taxation in Taiwan and other jurisdictions | | |
| Current period | **1,537** | 1,751 |
| Under provision in prior years | **7** | – |
| Withholding tax on dividends | **–** | 3,316 |
| | **1,544** | 5,067 |
| Deferred taxation | | |
| Current period | **(255)** | (5,051) |
| | **5,439** | 15,806 |

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%. The statutory withholding tax rate for non-PRC resident is 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. Withholding tax on dividends of nil (2018: HK$6,046,000) and nil (2018: HK$3,316,000) for the PRC and Taiwan were recognised respectively.

Corporate Income Tax in Taiwan is charged at 20% for the six months ended 30 June 2019 (2018: 17%).

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

## 5. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Profit for the period has been arrived at after charging (crediting): | | |
| Depreciation of property, plant and equipment | **11,483** | 12,202 |
| Depreciation of right-of-use assets | **6,155** | – |
| Release of prepaid lease payments | **–** | 640 |
| Amortisation of intangible assets | **925** | – |
| Total staff cost | **62,391** | 58,400 |
| Loss on disposal of property, plant and equipment | **–** | 101 |
| Allowance (reversal of allowance) for trade receivables | **2,076** | (3,120) |
| Allowance for obsolete inventories, included in cost of sales | **1,040** | 3,820 |
| Exchange gain | **(746)** | (982) |
| Interest income on bank deposits | **(693)** | (1,810) |
| Finance costs | **793** | – |

## 6. DIVIDENDS

At the annual general meeting of the Company held on 23 May 2019, no final dividend in respect of the year ended 31 December 2018 (2018: a final dividend of HK$0.0335 per share in respect of the year ended 31 December 2017) was declared to be payable to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to nil (2018: HK$67,070,000 was recognised as dividend payable in the interim period).

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit attributable to the owners of the Company of approximately HK$9,764,000 for the six months ended 30 June 2019 (2018: HK$29,000,000) and on the number of 2,002,100,932 (2018: 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 (2018: 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** | At 31 December |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (audited) |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables: | | |
| Within credit period | **54,560** | 64,231 |
| Credit period – 180 days | **5,694** | 2,366 |
| Over 180 days | **4,594** | 6,696 |
| Less: allowance for doubtful debts | **(4,396)** | (2,363) |
| | **60,452** | 70,930 |
| Prepayments | **29,109** | 12,134 |
| Other receivables | **3,298** | 3,503 |
| Total trade and other receivables | **92,859** | 86,567 |

## 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 2019 (unaudited)** ***HK$'000*** | At 31 December 2018 (audited) *HK$'000* |
|---|---|---|
| Trade payables: | | |
| Within 90 days | **33,588** | 18,843 |
| 91 days to 365 days | **48** | 1,680 |
| Over 365 days | **14** | 14 |
| | **33,650** | 20,537 |
| Deposits from franchisees | **26,931** | 24,317 |
| Other tax payables | **3,155** | 14,229 |
| Accruals | **24,881** | 27,938 |
| Other payables | **7,273** | 6,480 |
| | **95,890** | 93,501 |

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

| Turnover by geographical region | 1H 2019 | | 1H 2018 | | Changes | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***%*** | *HK$'000* | *%* | *HK$'000* | *%* |
| PRC | **151,595** | **74.0%** | 154,055 | 79.5% | (2,460) | (1.6%) |
| Taiwan | **51,729** | **25.2%** | 38,015 | 19.6% | 13,714 | 36.1% |
| Others | **1,564** | **0.8%** | 1,668 | 0.9% | (104) | (6.2%) |
| **Total** | **204,888** | **100.0%** | 193,738 | 100.0% | 11,150 | 5.8% |

During the six months ended 30 June 2019, turnover of the Group increased by 5.8% to HK$204.9 million compared with HK$193.7 million for the six months ended 30 June 2018. Turnover in the PRC remained relatively constant and turnover in Taiwan increased by 36.1% or 13.7 million compared with the corresponding period last year. The revenues are denominated in RMB and NTD in PRC and Taiwan respectively. Due to the adverse impact from RMB and NTD depreciation against HKD in the first half of 2019, the group's revenue only increased by 5.8% for the six months ended by 30 June 2019. The real growth rates of sales in PRC and Taiwan were 5.0% and 47.4% respectively in their own currencies.

For the six months ended 30 June 2019, turnover in the PRC market decreased by 1.6% from HK$154.1 million for the six months ended 30 June 2018 to HK$151.6 million; and turnover in Taiwan increased by 36.1% from HK$38.0 million for the six months ended 30 June 2018 to HK$51.7 million.

Sales from other regions, including Hong Kong, Macau and Malaysia, decreased by 6.2% to HK$1.6 million for the six months ended 30 June 2019. Contribution from these regions remained at an insignificant level of just 0.8% of the Group's turnover.

The Group's overall gross profit margin declined from 70.8% for the six months ended 30 June 2018 to 64.0% for the six months ended 30 June 2019 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 opening up a new distribution channel during the period under review.

| Turnover by activities | **1H 2019** | 1H 2018 | Changes | |
|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *%* |
| **Products** | | | | |
| PRC | **144,589** | 148,528 | (3,939) | (2.7%) |
| Taiwan | **50,390** | 36,885 | 13,505 | 36.6% |
| Others | **1,564** | 1,668 | (104) | (6.2%) |
| **Total** | **196,543** | 187,081 | 9,462 | 5.1% |
| **Services** | | | | |
| PRC | **7,006** | 5,527 | 1,479 | 26.8% |
| Taiwan | **1,339** | 1,130 | 209 | 18.5% |
| **Total** | **8,345** | 6,657 | 1,688 | 25.4% |

| Turnover by activities | **1H 2019** | | 1H 2018 | | Changes | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Products | **196,543** | **95.9%** | 187,081 | 96.6% | 9,462 | 5.1% |
| Services | **8,345** | **4.1%** | 6,657 | 3.4% | 1,688 | 25.4% |
| **Total** | **204,888** | **100.0%** | 193,738 | 100.0% | 11,150 | 5.8% |

**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 primarily come from franchised spas, self-owned spas and concessionary counters at department stores. Product sales for the six months ended 30 June 2019 amounted to HK$196.5 million, or 95.9% of the Group's total revenue, representing an increase of HK$9.5 million or by 5.1% when compared with sales of HK$187.1 million for the six months ended 30 June 2018. The increase in product sales was mainly driven by the increase in turnover in such segment in Taiwan market by 36.6% to HK$50.4 million for the six months ended 30 June 2019 compared with HK$36.9 million for the corresponding period last year.

| Service income | **1H 2019** | | 1H 2018 | | Changes | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | *%* | *HK$'000* | *%* | *HK$'000* | *%* |
| Training income | **162** | **1.9%** | 152 | 2.3% | 10 | 6.6% |
| Spa service and medical cosmetology service income | **7,145** | **85.6%** | 5,092 | 76.5% | 2,053 | 40.3% |
| Others | **1,038** | **12.5%** | 1,413 | 21.2% | (375) | (26.5%) |
| **Total** | **8,345** | **100.0%** | 6,657 | 100.0% | 1,688 | 25.4% |

**Services**

Service income is derived from the self-owned spas' services, 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 the overall sale of products to franchisees and attract new franchisees. Currently the Group has two self-owned spas and two self-owned medical cosmetology centres in the PRC and five 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 2019, service income increased by 25.4% to HK$8.3 million compared with HK$6.7 million for the corresponding period last year. The increase in service income was mainly driven by the increase in turnover of spa services and medical cosmetology service income by 40.3% to HK$7.1 million compared with HK$5.1 million for the corresponding period last year.

**Other income and other gains**

Other income and other gains decreased by HK$3.1 million or 47.5% from HK$6.5 million for the six months ended 30 June 2018 to HK$3.4 million for the six months ended 30 June 2019. Other income and other gains mainly comprised rental income from investment properties, interest income, government grants and exchange gains of HK$1.4 million, HK$0.7 million, HK$0.5 million and HK$0.7 million respectively during the six months ended 30 June 2019.

**Selling and administrative expenses**

Distribution and selling expenses as a percentage of the Group's turnover increased to 37.5% for the six months ended 30 June 2019 compared with 33.8% for the six months ended 30 June 2018. The distribution and selling expenses increased by HK$11.4 million from HK$65.4 million for the six months ended 30 June 2018 to HK$76.8 million for the six months ended 30 June 2019. Staff costs in relation to distribution work increased by HK$1.3 million from HK$26.0 million for the six months ended 30 June 2018 to HK$27.3 million for the six months ended 30 June 2019. Advertising expenses increased by HK$22.5 million from HK$3.2 million for the six months ended 30 June 2018 to HK$25.7 million for the six months ended 30 June 2019. Other key expenses included new products launching events and customers' training session expenses of HK$7.4 million, depreciation charges of HK$6.8 million as well as travelling charges of HK$2.4 million for the six months ended 30 June 2019.

Total administrative expenses increased by HK$3.3 million, or 9.3%, to HK$38.9 million for the six months ended 30 June 2019 compared with HK$35.6 million for the six months ended 30 June 2018. Administrative expenses mainly comprised staff costs in relation to administrative work of HK$10.0 million, consultancy and professional fee of HK$7.9 million, depreciation charges of HK$5.0 million and office and utility expenses of HK$2.4 million.

**Other expenses and other losses**

Other expenses and other losses increased by HK$5.9 million, from -HK$2.2 million for the six months ended 30 June 2018 to HK$3.7 million for the six months ended 30 June 2019. Other expenses and other losses for the six months ended 30 June 2019 mainly included the provision for doubtful debts expense of HK$2.1 million, related expenses of rental property of HK$0.8 million and interest expenses of lease liabilities of HK$0.8 million.

**Profit before tax**

Taking into account the decrease in gross profit and other income, and the increase in selling and administrative expenses, profit before tax decreased by 66.1% from HK$44.8 million for the six months ended 30 June 2018 to HK$15.2 million for the six months ended 30 June 2019.

**Taxation**

Taxation expenses decreased by HK$10.4 million to HK$5.4 million for the six months ended 30 June 2019 compared with HK$15.8 million for the six months ended 30 June 2018. The effective tax rates of the Group for the six months ended 30 June 2018 and 2019 were 35.3% and 35.8% respectively.

**Profit for the period**

Profit for the period decreased by 66.3% from HK$29.0 million for the six months ended 30 June 2018 to HK$9.8 million for the six months ended 30 June 2019.

**Liquidity and financial resources**

Cash used in operating activities for the six months ended 30 June 2019 was approximately HK$0.1 million (HK$60.5 million generated from operating activities for the six months ended 30 June 2018). As at 30 June 2019, the Group had bank balances and cash of approximately HK$159.6 million (HK$181.0 million as at 31 December 2018) with no external bank borrowing.

In terms of gearing, as at 31 December 2018 and 30 June 2019, the Group's gearing ratios were zero (defined as net debt divided by shareholders' equity) as the Group was in a net cash position on both year/period-end dates. Current ratios of the Group (defined as current assets divided by current liabilities) as at 31 December 2018 and 30 June 2019 were 2.8 times and 2.5 times respectively. As at 30 June 2019, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and bank balances in hand, the Group's liquidity position remains strong and it has sufficient financial resources to finance its commitments and to meet its working capital requirements.

**Treasury policies and exposure to fluctuations in exchange rates**

Most of the Group's revenues are denominated in Renminbi and New Taiwan Dollars as its operations are mainly located in the PRC and Taiwan. As at 30 June 2019, approximately 75.0% (72.4% as at 31 December 2018) of the Group's bank balances and cash was denominated in Renminbi, while approximately 17.0% (21.5% as at 31 December 2018) in New Taiwan Dollars. The remaining 8.0% (6.1% as at 31 December 2018) was denominated in US Dollars, Hong Kong Dollars and Ringgit Malaysia. The Group continues to adopt a conservative approach in its foreign exchange exposure management. It reviews its foreign exchange risks periodically and uses derivatives to hedge against such risks when necessary.

## BUSINESS REVIEW

| Turnover by geographic region | **1H 2019** | 1H 2018 | Changes | |
|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *%* |
| **PRC** | | | | |
| Products | **144,589** | 148,528 | (3,939) | (2.7%) |
| Services | **7,006** | 5,527 | 1,479 | 26.8% |
| **PRC Total** | **151,595** | 154,055 | (2,460) | (1.6%) |
| **Taiwan** | | | | |
| Products | **50,390** | 36,885 | 13,505 | 36.6% |
| Services | **1,339** | 1,130 | 209 | 18.5% |
| **Taiwan Total** | **51,729** | 38,015 | 13,714 | 36.1% |
| **Others** | | | | |
| Products | **1,564** | 1,668 | (104) | (6.2%) |
| Services | **–** | – | – | – |
| **Others Total** | **1,564** | 1,668 | (104) | (6.2%) |

### The PRC Market

The Group's turnover in the PRC market decreased by 1.6% for the six months ended 30 June 2019 to HK$151.6 million compared with HK$154.1 million for the six months ended 30 June 2018. Gross margin on product sales decreased from 76.6% for the six months ended 30 June 2018 to 67.6% for the six months ended 30 June 2019. The key reasons are the changes in the mixture of products with different gross profit margin and the revenue mixture of the Group's product/beauty apparatus/service package.

### The Taiwan Market

The Group's turnover in the Taiwan market increased by 36.1% from HK$38.0 million for the six months ended 30 June 2018 to HK$51.7 million for the six months ended 30 June 2019. Gross margin on product sales decreased from 78.4% for the six months ended 30 June 2018 to 71.2% for the six months ended 30 June 2019. The key reason is that the gross profit margin of product sales via new distribution channel in Taiwan is lower than the gross profit margin of product sales via existing channels.

Benefited from the operation strategy of EMI Group, NB products were sold through the distribution channels of EMI. For the six months ended by 30 June 2019, sales revenue from TV shopping and telemarketing channels in Taiwan market contributed HK$13,200,000 to the Group, accounting for 26.2% of the product sales in Taiwan.

### Distribution channels

| Store Number by Ownership | Franchisee owned Spa | Self-owned Spa | Total Spa | Entrusted Counter | Self-owned Counter | Total Counter | Self-owned Medical Cosmetology | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2019** | | | | | | | | |
| PRC | **797** | **2** | **799** | **0** | **11** | **11** | **2** | **812** |
| Taiwan | **258** | **5** | **263** | **0** | **0** | **0** | **0** | **263** |
| Others | **27** | **0** | **27** | **0** | **0** | **0** | **0** | **27** |
| **Total** | **1,082** | **7** | **1,089** | **0** | **11** | **11** | **2** | **1,102** |

| Store Number by Ownership | Franchisee owned Spa | Self-owned Spa | Total Spa | Entrusted Counter | Self-owned Counter | Total Counter | Self-owned Medical Cosmetology | Total |
|---|---|---|---|---|---|---|---|---|
| As at 30 June 2018 | | | | | | | | |
| PRC | 760 | 2 | 762 | 0 | 15 | 15 | 1 | 778 |
| Taiwan | 247 | 3 | 250 | 0 | 0 | 0 | 0 | 250 |
| Others | 30 | 0 | 30 | 0 | 0 | 0 | 0 | 30 |
| Total | 1,037 | 5 | 1,042 | 0 | 15 | 15 | 1 | 1,058 |

| **Average sales per store** | **1H 2019 Average store*** | 1H 2018 Average store* | **1H 2019 Average sales per store** | 1H 2018 Average sales per store | Changes | |
|---|---|---|---|---|---|---|
| | | | ***HK$*** | *HK$* | *HK$* | *%* |
| PRC | **801.5** | 795.0 | **189,000** | 194,000 | (5,000) | (2.6%) |
| Taiwan | **253.5** | 249.5 | **156,000** | 152,000 | 4,000 | 2.6% |
| **Group total**** | **1,055.0** | 1,044.5 | **181,000** | 184,000 | (3,000) | (1.6%) |

* 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.

The Group derives its income principally from its network of distribution channels, including spas and concessionary counters in department stores. As at 30 June 2019, there were 1,089 spas, 2 medical cosmetology centres and 11 concessionary counters. Of these, 1,082 were franchised spas, while 7 spas, 2 medical cosmetology centres and 11 concessionary counters were directly operated by the Group. No concessionary counters were entrusted to third-party operators. Franchised spas are owned by the franchisees who are responsible for the capital investment in these spas. They are obliged to use only Natural Beauty or "NB" products in their spas. A wide array of services including hydrotherapy, facial treatment, body care and skin care analysis are provided in all spas, while skin care analysis is widely available at the concessionary counters in department stores.

Group-wide, a total of 50 new stores were opened and 10 stores were closed during the six months ended 30 June 2019. Average sales per store decreased from HK$184,000 for the six months ended 30 June 2018 to HK$181,000 for the six months ended 30 June 2019.

**Research and Development**

The Group puts significant emphasis on research and development ("**R&D**") which allows it to maintain its competitive edge, to continuously improve the quality of its existing products and develop new products. The Group has been collaborating with overseas skin-care companies on technological development. The bio-technology materials the Group uses for its NB products are imported from Europe, Japan and Australia. The Group's 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, together with Dr. TSAI Yen-Yu's 40-year-plus industry experience and knowledge 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 2019, the Group's flagship NB-1 products accounted for 33.6% of total product sales. Sales of NB-1 branded products reached HK$66.0 million for the six months ended 30 June 2019.

Through the research and planning of the beauty market, the Group has successfully launched the new beauty apparatus for the franchisees, thereby enhancing its market position in the beauty market. During the six months ended 30 June 2019, sales of the new beauty apparatus achieved HK$24.6 million, accounting for 12.5% of total product sales.

**Human Resources**

As at 30 June 2019, the Group had a total of 587 employees, of whom 425 were based in the PRC, 160 in Taiwan and 2 in other countries and regions. Total remuneration (excluding directors' emoluments) for the six months ended 30 June 2019 was approximately HK$61.7 million (HK$54.6 million for the six months ended 30 June 2018), including retirement benefit related costs of HK$9.4 million (HK$7.7 million for the six months ended 30 June 2018), with no stock option expenses (nil for the six months ended 30 June 2018). Competitive remuneration packages are maintained to attract, retain and motivate capable staff members and are reviewed on a regular basis.

The Group maintains good relations with its employees and is committed to their training and development. Professional training courses are offered to beauticians employed by the Group and to franchisees on a regular basis.

**Capital Expenditures**

The Group's capital expenditure of HK$17.1 million for the six months ended 30 June 2019 was mainly related to the new plant construction in the PRC amounting to HK$13.4 million, opening of new stores, renovation and equipment amounting to HK$3.5 million and IT infrastructure amounting to HK$0.2 million.

**Right-of-use Assets and Lease Liability**

Hong Kong Financial Reporting Standard 16 *Leases* (HKFRS 16) came into effect on or after 1 January 2019. At the commencement date, the Group should recognise a right-of-use asset and a lease liability. The related right-to-use assets and lease liabilities are mainly located in the PRC and Taiwan. As at 30 June 2019, the Group's right-of-use assets were HK$77.0 million (HK$81.4 million as at 1 January 2019) and its lease liabilities were HK$27.8 million (HK$31.6 million as at 1 January 2019). For the six months ended 30 June 2019, depreciation charges of right-of-use assets amounted to HK$6.2 million and interest charges of lease liabilities amounted to HK$0.8 million.

## OUTLOOK

The Group will continue to improve its utilization of the resources and network of EMI Group to expedite the expansion of the Group's franchising business of Natural Beauty spa outlets, in particular the opening of new spa outlets in popular commercial areas. Also, the Group will continuously deploy state-of-the-art technology to improve our service quality and industry competitiveness. Other than franchising, the Group is dedicated to developing new businesses and promoting the Natural Beauty brand through shopping channels, telemarketing, e-commerce platforms, social media platforms, and B2B channels, etc. More resources will be invested in celebrity endorsements, including Xin Jiang (蔣欣) from mainland China, and other online key opinion leaders, along with a comprehensive online-to-offline media plan.

With respect to product development, a scholar from Harvard University has been hired as our consultant. We are still inviting other scholars and experts, who specialize in the field of skin-care, from the United States, Japan, Taiwan, or the PRC, to join our team of consultants. In the meantime, the Group has forged long-term, collaborative relationship with various universities to continuously develop new products.

Based on the above, in the second half of 2019, with the availability of the extensive experience and expertise of EMI Group in media and retail industries, the Group will fully focus on product R&D, expansion of spa franchising business, service quality improvement, marketing channels diversification, and allocation of marketing resources.

## CORPORATE GOVERNANCE HIGHLIGHTS AND OTHER INFORMATION

The Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of its shareholders.

Accordingly, the Board has established the audit committee, the executive committee, the remuneration committee and the nomination committee with defined terms of reference which are of no less exacting terms than those set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). These committees (save for 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 2019 have been reviewed by the audit committee which is of the opinion that such statements comply with the applicable accounting standards, legal requirements and the Listing Rules, and that adequate disclosures have been made.

In addition, the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 have also been reviewed by Messrs. Deloitte Touche Tohmatsu, the auditors of the Company, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", whose review report will be disclosed in the Company's 2019 Interim Report to be sent to the shareholders of the Company in due course.

### Remuneration Committee

The remuneration committee has adopted terms of reference (Remuneration Committee Charter) which are in line with the code provisions of the CG Code. The main duties of the remuneration committee include determining the policy and structure for the remuneration of executive Directors, assessing performance of executive Directors and approving the terms of executive Directors' service contracts, and determining or making recommendations to the Board on the Company's remuneration packages of individual executive and non-executive Directors and senior management.

### Nomination Committee

The nomination committee has adopted terms of reference (Nomination Committee Charter) which are in line with the code provisions of the CG Code. The nomination committee is responsible for, including but not limited to, determining the policy for the nomination of Directors, reviewing the structure, size, composition and diversity of the Board annually and making recommendations to the Board on selection of candidates for directorships pursuant to the board diversity policy. It also assesses the independence of independent non-executive Directors.

### Executive Committee

The executive committee is primarily responsible for formulating business policies, making decisions on key business issues and policies, facilitating the approval of certain corporate actions and exercising the powers and authority delegated by the Board in respect of matters arising between regularly scheduled Board meetings, and to review financial, marketing, retail, operation and other business performance, as well as to review and approve annual budget and key performance indicators and track performance.

### Compliance with the CG Code

The Company recognises the importance of good corporate governance in enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has fully complied with all the code provisions set out in the CG Code throughout the six months ended 30 June 2019.

### 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 2019 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 2019, 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 2019 was declared (2018: an interim dividend of HK$0.0145 per share).

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

This interim results announcement is also published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.ir-cloud.com/hongkong/00157/irwebsite). The Interim Report for the six months ended 30 June 2019 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.

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

Hong Kong, 12 August 2019

*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.*