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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 2022**

HIGHLIGHTS:

- Revenue decreased by 29.1% to HK\$163,591,000.
- Net loss recorded of HK\$30,249,000.
- No interim dividend for the six months ended 30 June 2022 was declared (2021: 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 2022, together with the comparative figures for the first half of 2021, as follows:

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

FOR THE SIX MONTHS ENDED 30 JUNE 2022

| | <i>Note</i> | Six months ended 30 June | |
|--|-------------|--|--|
| | | 2022 (unaudited) HK\$'000 | 2021 (unaudited) HK\$'000 |
| Revenue | 4 | 163,591 | 230,878 |
| Cost of sales | | (76,059) | (85,203) |
| Gross profit | | 87,532 | 145,675 |
| Other income and other gains | | 6,919 | 4,516 |
| Impairment losses, net of reversal | | (387) | 3,581 |
| Distribution and selling expenses | | (73,252) | (84,233) |
| Administrative expenses | | (35,906) | (42,276) |
| Loss on derecognition of intangible assets | 9 | (5,147) | – |
| Impairment loss on goodwill | 9 | (2,133) | – |
| Other expenses and other losses | | (1,560) | (1,072) |
| (Loss)/profit from operations | | (23,934) | 26,191 |
| Finance costs | | (1,346) | (750) |
| Loss on disposal of a subsidiary | | – | (199) |
| (Loss)/profit before tax | | (25,280) | 25,242 |
| Income tax expense | 6 | (4,969) | (8,209) |
| (Loss)/profit for the period | 5 | (30,249) | 17,033 |

| | | Six months ended 30 June | |
|---|--|------------------------------------|-----------------------------|
| | | 2022 | 2021 |
| | | (unaudited) | (unaudited) |
| <i>Note</i> | | HK\$'000 | HK\$'000 |
| Other comprehensive income: | | | |
| <i>Item that will be reclassified to profit or loss:</i> | | | |
| | Exchange differences on translating foreign operations | <u>(33,485)</u> | <u>7,474</u> |
| | Total comprehensive income for the period | <u>(63,734)</u> | <u>24,507</u> |
| (Loss)/profit for the period attributable to: | | | |
| | Owners of the Company | <u>(30,249)</u> | <u>17,033</u> |
| Total comprehensive income for the period attributable to: | | | |
| | Owners of the Company | <u>(63,734)</u> | <u>24,507</u> |
| (Loss)/earnings per share | | | |
| | Basic | <u>8(a) HK cents (1.51)</u> | <u>HK cents 0.85</u> |
| | Diluted | <u>8(b) N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2022

| | | Unaudited | Audited |
|---|-------------|-----------------------|-----------------|
| | | 30 June | 31 December |
| | | 2022 | 2021 |
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | | 320,406 | 335,099 |
| Investment properties | | 8,933 | 9,532 |
| Right-of-use assets | | 70,033 | 81,701 |
| Goodwill | | 26,422 | 29,613 |
| Intangible assets | | – | 5,651 |
| Deposits for purchase of property, plant and equipment | | 244 | 255 |
| Deferred tax assets | | 24,017 | 18,262 |
| | | <u>450,055</u> | <u>480,113</u> |
| Current assets | | | |
| Inventories | | 110,662 | 120,961 |
| Trade and other receivables | <i>10</i> | 121,210 | 131,969 |
| Amount due from a related party | | 1,717 | – |
| Contract costs | | 299 | 319 |
| Pledged bank deposits | | – | 3,745 |
| Bank and cash balances | | 183,758 | 193,337 |
| | | <u>417,646</u> | <u>450,331</u> |
| Current liabilities | | | |
| Trade and other payables | <i>11</i> | 124,759 | 109,777 |
| Amount due to a related party | | 324 | 544 |
| Dividend payables | <i>7</i> | 6,006 | – |
| Contract liabilities | | 21,997 | 13,552 |
| Borrowings | | 90,915 | 87,801 |
| Lease liabilities | | 4,696 | 7,015 |
| Current tax liabilities | | 4,437 | 19,277 |
| | | <u>253,134</u> | <u>237,966</u> |
| Net current assets | | <u>164,512</u> | <u>212,365</u> |
| Total assets less current liabilities | | <u>614,567</u> | <u>692,478</u> |

| | Unaudited | Audited |
|--------------------------------|------------------------|------------------------|
| | 30 June | 31 December |
| | 2022 | 2021 |
| <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current liabilities | | |
| Borrowings | 7,567 | 9,482 |
| Lease liabilities | 18,540 | 24,776 |
| Retirement benefit obligations | <u>282</u> | <u>302</u> |
| | <u>26,389</u> | <u>34,560</u> |
| NET ASSETS | <u>588,178</u> | <u>657,918</u> |
| Capital and reserves | | |
| Share capital | 200,210 | 200,210 |
| Reserves | <u>387,968</u> | <u>457,708</u> |
| TOTAL EQUITY | <u>588,178</u> | <u>657,918</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

(With comparatives for the six months ended 30 June 2021 and as of 31 December 2021)

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

1. BASIS OF PREPARATION

The condensed 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”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2021 annual financial statements. 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 used in the annual financial statements for the year ended 31 December 2021.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies applied in these condensed financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2021. In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2022 but they do not have a material effect on the Group’s condensed financial statements.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Period ended 30 June 2022

| | The People's Republic of China ("the PRC") (unaudited) HK\$'000 | Taiwan (unaudited) HK\$'000 | Others (unaudited) HK\$'000 | Total (unaudited) HK\$'000 |
|---------------------------------|--|--|--|---|
| Revenue from external customers | <u>97,648</u> | <u>60,004</u> | <u>5,939</u> | <u>163,591</u> |
| Segment (loss)/profit | <u>(32,139)</u> | <u>7,893</u> | <u>2,788</u> | (21,458) |
| Unallocated corporate expenses | | | | (5,075) |
| Unallocated income | | | | <u>1,253</u> |
| Consolidated loss before tax | | | | <u>(25,280)</u> |

Period ended 30 June 2021

| | The PRC (unaudited) HK\$'000 | Taiwan (unaudited) HK\$'000 | Others (unaudited) HK\$'000 | Total (unaudited) HK\$'000 |
|---------------------------------|---|--|--|---|
| Revenue from external customers | <u>131,128</u> | <u>97,414</u> | <u>2,336</u> | <u>230,878</u> |
| Segment profit/(loss) | <u>5,151</u> | <u>30,792</u> | <u>(1,694)</u> | 34,249 |
| Unallocated corporate expenses | | | | (9,992) |
| Unallocated income | | | | <u>985</u> |
| Consolidated profit before tax | | | | <u>25,242</u> |

Segment profits or losses do not include central administration costs, directors' salaries and interest income.

The Chief Operating Decision Maker ("CODM") makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Geographical information:

The Group's information about its non-current assets by location of assets are detailed below:

| | 30 June 2022 (unaudited) <i>HK\$'000</i> | 31 December 2021 (audited) <i>HK\$'000</i> |
|---------------------------|---|---|
| Non-current assets | | |
| The PRC | 355,574 | 382,973 |
| Taiwan | 68,981 | 76,972 |
| Others | <u>1,483</u> | <u>1,906</u> |
| Consolidated total | <u><u>426,038</u></u> | <u><u>461,851</u></u> |

Note: Non-current assets excluded deferred tax assets.

4. REVENUE

(a) Disaggregation of revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers by major products and service lines as follows:

| | Six months ended 30 June | |
|--|--------------------------|-----------------------|
| | 2022 | 2021 |
| | (unaudited) | (unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue from contracts with customers | | |
| within the scope of HKFRS 15 | | |
| Disaggregated by major products or service lines | | |
| Sales of goods | 159,828 | 223,725 |
| Service income | <u>3,763</u> | <u>7,153</u> |
| | <u>163,591</u> | <u>230,878</u> |

In the following table, revenue is disaggregated by primary geographical market and timing of revenue recognition.

| | Six months ended 30 June | |
|---|--------------------------|-----------------------|
| | 2022 | 2021 |
| | (unaudited) | (unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Primary geographical markets | | |
| The PRC | 97,767 | 131,236 |
| Taiwan | 60,004 | 97,414 |
| Others | <u>5,820</u> | <u>2,228</u> |
| | <u>163,591</u> | <u>230,878</u> |
| Timing of revenue recognition | | |
| Products transferred at a point in time | 159,828 | 223,725 |
| Products and services transferred over time | <u>3,763</u> | <u>7,153</u> |
| | <u>163,591</u> | <u>230,878</u> |

(b) **Transaction price allocated to the remaining performance obligation for contracts with customers**

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2022 and the expected timing of recognising revenue as follows:

| | 30 June 2022 (unaudited) HK\$'000 | 31 December 2021 (audited) HK\$'000 |
|-----------------|--|--|
| Within one year | <u>21,997</u> | <u>13,552</u> |

5. (LOSS)/PROFIT FOR THE PERIOD

The Group's (loss)/profit for the period is arrived after charging/(crediting) the following:

| | Six months ended 30 June | |
|---|--|---------------------------------|
| | 2022 (unaudited) HK\$'000 | 2021 (unaudited) HK\$'000 |
| Depreciation of property, plant and equipment | 12,143 | 12,127 |
| Depreciation of right-of-use assets (included in cost of sales, distribution and selling expenses and administrative expenses) | 4,567 | 3,706 |
| Amortisation of intangible assets | 423 | 960 |
| Total staff cost (including directors' emoluments) | 73,534 | 74,116 |
| Loss/(gain) on disposal of property, plant and equipment | 65 | (4) |
| Impairment/(reversal of impairment) for trade receivables | 387 | (3,581) |
| Allowance for obsolete inventories (included in cost of sales) | 4,866 | 5,125 |
| Net exchange (gain)/loss | (2,360) | 63 |
| Interest income on bank deposits | (1,253) | (985) |
| Cost of inventories recognised as cost of sales | 66,829 | 75,892 |
| Operating lease charge within 12 months | <u>2,667</u> | <u>3,184</u> |

6. INCOME TAX EXPENSE

Income tax has been recognised in profit or loss as follows:

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2022 (unaudited) HK\$'000 | 2021 (unaudited) HK\$'000 |
| Current tax – PRC Enterprise Income Tax (“EIT”) | | |
| Provision for the period | – | 759 |
| (Over)/under provision in prior period | <u>(635)</u> | <u>146</u> |
| | <u>(635)</u> | <u>905</u> |
| Current tax – Taiwan Corporate Income Tax | | |
| Provision for the period | <u>1,734</u> | <u>7,068</u> |
| Withholding tax | <u>10,617</u> | <u>1,206</u> |
| Deferred taxation | <u>(6,747)</u> | <u>(970)</u> |
| | <u><u>4,969</u></u> | <u><u>8,209</u></u> |

PRC EIT has been provided at a rate of 25% (2021: 25%) and Corporate Income Tax in Taiwan has been provided at a rate of 20% (2021: 20%) for the six months period ended 30 June 2022.

Pursuant to the relevant laws and regulations in the PRC and Taiwan, dividend withholding tax is imposed at a rate of 10% (2021: 10%) and 21% (2021: 21%) on dividends that are declared in respect of profits earned by the PRC and Taiwan subsidiaries respectively and that are received by non-local resident entities. Withholding tax on dividends of HK\$10,288,000 were recognised for a Taiwan subsidiary (2021: Nil) for the six months period ended 30 June 2022.

Under the two-tiered Profits Tax regime, the first HK\$2 million of profits of the qualifying group entity established in Hong Kong will be taxed at 8.25% (2021: 8.25%), and profits above that amount will be subject to the tax rate of 16.5% (2021: 16.5%). The profits of the group entities not qualifying for the two-tiered Profits Tax rate regime will continue to be taxed at a rate of 16.5% (2021: 16.5%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group’s subsidiaries operate, based on existing legislation, interpretation and practices in respect thereof.

7. DIVIDENDS

At the annual general meeting of the Company held on 25 May 2022, a final dividend of HK\$0.003 per share in respect of the year ended 31 December 2021 (2021: HK\$0.003 per share) was declared to be payable to the owners of the Company. The aggregate amount of the final dividend amounted to approximately HK\$6,006,000 is recognised as dividend payable as of 30 June 2022 (2021: HK\$6,006,000).

The directors do not recommend the payment of any interim dividend for the six months period ended 30 June 2022 (2021: Nil).

8. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the loss for the period attributable to the owners of the Company of approximately loss of HK\$30,249,000 (2021: profit of HK\$17,033,000) and the weighted average number of ordinary share of approximately 2,002,100,932 (2021: 2,002,100,932) in issue during the period.

(b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share for the six months period ended 30 June 2022 and 2021 is presented as the Company had no potential ordinary shares outstanding.

9. LOSS ON DERECOGNITION OF INTANGIBLE ASSETS AND IMPAIRMENT LOSS ON GOODWILL

Beijing Jiayun Medical Beauty Clinic Company Limited (“**Jiayun**”), one of the subsidiaries of the Group, was informed by Beijing Chaoyang District Health Commission by written notice that the Practice License of Medical Institution (the “**License**”) had been cancelled due to unsuccessful renewal. As a result, losses on derecognition of relevant intangible assets and deferred tax liabilities of HK\$5,147,000 and HK\$1,287,000 respectively are recognised during the six months period ended 30 June 2022.

Cash Generating Unit (“**CGU**”) of medical aesthetics services in the PRC (“**CGU B**”) consists of CGU of Jiayun. Due to the cancellation of the License, the Group’s management determined to fully impair CGU B and goodwill of HK\$2,133,000 is impaired during the six months period ended 30 June 2022.

10. TRADE AND OTHER RECEIVABLES

| | 30 June 2022 (unaudited) HK\$'000 | 31 December 2021 (audited) HK\$'000 |
|---------------------------------|--|--|
| Trade receivables | 83,453 | 115,739 |
| Less: Allowance for credit loss | <u>(931)</u> | <u>(582)</u> |
| | 82,522 | 115,157 |
| Prepayments | 35,430 | 12,056 |
| Deposits | 2,072 | 3,338 |
| Other receivables | 1,105 | 1,273 |
| Right-of-return assets | <u>81</u> | <u>145</u> |
| | <u>121,210</u> | <u>131,969</u> |

The Group allows general credit period range from 30 to 120 days to its trade customers who are qualified for credit sales. The credit period provided to customers can vary based on a number of factors including the customer's credit profile and sales promotion policy.

The ageing analysis of the Group's trade receivables, based on the invoice date, and net of allowance, is as follows:

| | 30 June 2022 (unaudited) HK\$'000 | 31 December 2021 (audited) HK\$'000 |
|-----------------|--|--|
| Within 180 days | 70,493 | 104,751 |
| Over 180 days | <u>12,029</u> | <u>10,406</u> |
| | <u>82,522</u> | <u>115,157</u> |

11. TRADE AND OTHER PAYABLES

| | 30 June 2022 (unaudited) HK\$'000 | 31 December 2021 (audited) HK\$'000 |
|---------------------------|--|--|
| Trade payables | 26,448 | 15,151 |
| Deposits from franchisees | 25,297 | 28,582 |
| Other tax payables | 14,666 | 8,913 |
| Accruals | 46,310 | 46,040 |
| Other payables | 11,866 | 10,710 |
| Refund liabilities | 172 | 381 |
| | <u>124,759</u> | <u>109,777</u> |

The ageing analysis of the Group's trade payables, based on the date of receipt of goods or service consumed, is as follows:

| | 30 June 2022 (unaudited) HK\$'000 | 31 December 2021 (audited) HK\$'000 |
|---------------------|--|--|
| Within 90 days | 26,144 | 15,143 |
| 91 days to 365 days | 304 | 8 |
| | <u>26,448</u> | <u>15,151</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by segment

| | 1H 2022 | | 1H 2021 | | Changes | |
|--------------|----------------|---------------|----------------|---------------|-----------------|---------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| PRC | 97,648 | 59.7% | 131,128 | 56.8% | (33,480) | -25.5% |
| Taiwan | 60,004 | 36.7% | 97,414 | 42.2% | (37,410) | -38.4% |
| Others | 5,939 | 3.6% | 2,336 | 1.0% | 3,603 | 154.2% |
| Total | 163,591 | 100.0% | 230,878 | 100.0% | (67,287) | -29.1% |

During the six months ended 30 June 2022, turnover of the Group decreased by 29.1% or HK\$67.3 million from HK\$230.9 million for the six months ended 30 June 2021 to HK\$163.6 million for the six months ended 30 June 2022.

For the six months ended 30 June 2022, turnover in the PRC market decreased by 25.5% or HK\$33.5 million from HK\$131.1 million for the six months ended 30 June 2021 to HK\$97.6 million for the six months ended 30 June 2022; and turnover in Taiwan decreased by 38.4% or HK\$37.4 million from HK\$97.4 million for the six months ended 30 June 2021 to HK\$60.0 million for the six months ended 30 June 2022.

Sales from other regions, including Hong Kong, Macau and Malaysia, increased by 154.2% to HK\$5.9 million for the six months ended 30 June 2022. Sales contribution from these regions remained to be at an insignificant level of 3.6% of the Group's turnover for the six months ended 30 June 2022.

The Group's overall gross profit margin decreased from 63.1% for the six months ended 30 June 2021 to 53.5% for the six months ended 30 June 2022 mainly due to : (1) the changes in revenue mix of products bundling in the PRC market; (2) COVID related policy implemented both in the PRC and Taiwan markets. In particular, the 2-month lockdown in Shanghai in the first half of 2022 has led to the accumulation of fixed costs which further imposes pressure on the gross profit margin.

| Turnover by activities | 1H 2022 | 1H 2021 | Changes | |
|-------------------------------|-----------------------|-----------------------|------------------------|----------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | % |
| Products | | | | |
| PRC | 94,329 | 124,296 | (29,967) | -24.1% |
| Taiwan | 60,004 | 97,407 | (37,403) | -38.4% |
| Others | 5,495 | 2,022 | 3,473 | 171.8% |
| Total | <u>159,828</u> | <u>223,725</u> | <u>(63,897)</u> | <u>-28.6%</u> |
| Services | | | | |
| PRC | 3,319 | 6,832 | (3,513) | -51.4% |
| Taiwan | - | 7 | (7) | -100.0% |
| Others | 444 | 314 | 130 | 41.4% |
| Total | <u>3,763</u> | <u>7,153</u> | <u>(3,390)</u> | <u>-47.4%</u> |

| Turnover by activities | 1H 2022 | | 1H 2021 | | Changes | |
|-------------------------------|-----------------------|----------------------|-----------------------|----------------------|------------------------|----------------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Products | 159,828 | 97.7% | 223,725 | 96.9% | (63,897) | -28.6% |
| Services | 3,763 | 2.3% | 7,153 | 3.1% | (3,390) | -47.4% |
| Total | <u>163,591</u> | <u>100.0%</u> | <u>230,878</u> | <u>100.0%</u> | <u>(67,287)</u> | <u>-29.1%</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, make-up products under the “Natural Beauty” brand and beauty apparatus. Product sales are the Group’s key revenue sources and are primarily generated 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 2022 amounted to HK\$159.8 million, or 97.7% of the Group’s total revenue, representing a decrease of HK\$63.9 million or by 28.6% as compared with product sales of HK\$223.7 million for the six months ended 30 June 2021. The decrease in product sales was mainly due to the decrease in turnover in such segment in the PRC market by 24.1% to HK\$94.3 million for the six months ended 30 June 2022 as compared with HK\$124.3 million for the corresponding period last year and the decrease in turnover in such segment in the Taiwan market by 38.4% to HK\$60.0 million for the six months ended 30 June 2022 as compared with HK\$97.4 million for the corresponding period last year.

| Service income | 1H 2022 | | 1H 2021 | | Changes | |
|--|--------------|---------------|--------------|---------------|----------------|---------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Training income | 3 | 0.1% | 19 | 0.3% | (16) | -84.2% |
| Spa/medical cosmetology service income | 3,760 | 99.9% | 6,844 | 95.6% | (3,084) | -45.1% |
| Others | – | – | 290 | 4.1% | (290) | -100.0% |
| Total | 3,763 | 100.0% | 7,153 | 100.0% | (3,390) | -47.4% |

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 2022, the Group had three self-owned spas in the PRC, and one self-owned spa in Malaysia.

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 2022, service income decreased by 47.4% to HK\$3.8 million as compared with HK\$7.2 million for the corresponding period last year. The decrease in service income was mainly due to the decrease in turnover of spa services and medical cosmetology service income by 45.1% to HK\$3.8 million as compared with HK\$6.8 million for the corresponding period last year.

Other income and other gains

Other income and other gains increased by HK\$2.4 million or 53.3% from HK\$4.5 million for the six months ended 30 June 2021 to HK\$6.9 million for the six months ended 30 June 2022. Other income and other gains mainly comprised exchange gains and losses, government grants, interest income and rental income from other properties of HK\$2.4 million, HK\$1.4 million, HK\$1.3 million and HK\$1.1 million respectively during the six months ended 30 June 2022.

Selling and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover increased to 44.7% for the six months ended 30 June 2022 as compared with 36.5% for the six months ended 30 June 2021. The distribution and selling expenses decreased by HK\$11.0 million from HK\$84.2 million for the six months ended 30 June 2021 to HK\$73.2 million for the six months ended 30 June 2022. The decrease was mainly attributable to the lowered advertising expenses, which decreased by HK\$11.5 million from HK\$18.0 million for the six months ended 30 June 2021 to HK\$6.5 million for the six months ended 30 June 2022.

Distribution and selling expenses mainly comprised salaries expenses of HK\$41.1 million, depreciation charges of HK\$7.8 million, advertising expenses of HK\$6.5 million, consultancy and professional expenses of HK\$4.9 million, freight on sales of HK\$4.6 million, rental expenses of HK\$2.3 million as well as travelling charges of HK\$1.8 million for the six months ended 30 June 2022.

Total administrative expenses decreased by HK\$6.4 million, or 15.1%, to HK\$35.9 million for the six months ended 30 June 2022 as compared with HK\$42.3 million for the six months ended 30 June 2021. Administrative expenses mainly comprised staff costs and retirement benefits (including directors' remuneration) of HK\$16.7 million, consultancy and professional fees of HK\$5.2 million, depreciation charges of HK\$4.5 million, research and development expenses of HK\$2.6 million and office and utility expenses of HK\$2.5 million.

Other expenses and other losses

Other expenses and other losses increased by HK\$0.5 million, from HK\$1.1 million for the six months ended 30 June 2021 to HK\$1.6 million for the six months ended 30 June 2022. Other expenses and other losses for the six months ended 30 June 2022 mainly included related expenses of rental property of HK\$0.9 million, loss on disposal of assets of HK\$0.1 million and others of HK\$0.6 million.

Loss on derecognition of intangible assets and impairment loss on goodwill

Loss on derecognition of intangible assets was HK\$5.1 million for the six months ended 30 June 2022. Impairment loss on goodwill was HK\$2.1 million for the six months ended 30 June 2022.

Subsequent to the profit warning announcement published by the Company, the management of the Company became aware that the Practice License of Medical Institution (the “**License**”) of Beijing Jiayun Medical Beauty Clinic Company Limited (“**Jiayun**”), one of the subsidiaries of the Group, had been cancelled due to unsuccessful renewal. As a result, losses on derecognition of relevant intangible assets and deferred tax liabilities of HK\$5,147,000 and HK\$1,287,000 respectively are recognised during the six months ended 30 June 2022. Cash Generating Unit (“**CGU**”) of medical aesthetics services in the PRC (“**CGU B**”) consists of CGU of Jiayun. Due to the cancellation of the License, the Group's management determined to fully impair CGU B and goodwill of HK\$2,133,000 was impaired during the six months ended 30 June 2022.

(Loss)/profit before tax

Taking into account the decrease in gross profit, (loss)/profit before tax decreased by 200.1% from profit of HK\$25.2 million for the six months ended 30 June 2021 to loss of HK\$25.3 million for the six months ended 30 June 2022.

(Loss)/profit for the period

(Loss)/profit for the period decreased by 277.6% from a profit of HK\$17.0 million for the six months ended 30 June 2021 to a loss of HK\$30.2 million for the six months ended 30 June 2022.

Liquidity and financial resources

Cash generated from operating activities for the six months ended 30 June 2022 was approximately HK\$8.7 million (HK\$8.7 million for the six months ended 30 June 2021). As at 30 June 2022, the Group had cash and cash equivalents of approximately HK\$183.8 million (HK\$193.3 million as at 31 December 2021) with approximately HK\$98.5 million (approximately HK\$97.3 million as at 31 December 2021) being external bank borrowing.

In terms of gearing, as at 31 December 2021 and 30 June 2022, the Group's gearing ratios (defined as total bank borrowings divided by shareholders' equity) were 14.8% and 16.7% respectively. Current ratios (defined as current assets divided by current liabilities) of the Group as at 31 December 2021 and 30 June 2022 were 1.89 times and 1.65 times respectively. As at 30 June 2022, 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 2022, approximately 54.4% (68.0% as at 31 December 2021) of the Group's bank balances and cash were denominated in RMB, while approximately 32.9% (27.6% as at 31 December 2021) were in NTD. The remaining 12.7% (4.4% as at 31 December 2021) 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 segment | 1H 2022 HK\$'000 | 1H 2021 HK\$'000 | Changes | |
|---------------------|----------------------|---------------------|-----------------|---------------|
| | | | HK\$'000 | % |
| PRC | | | | |
| Products | 94,329 | 124,296 | (29,967) | -24.1% |
| Services | 3,319 | 6,832 | (3,513) | -51.4% |
| PRC Total | <u>97,648</u> | <u>131,128</u> | <u>(33,480)</u> | <u>-25.5%</u> |
| Taiwan | | | | |
| Products | 60,004 | 97,407 | (37,403) | -38.4% |
| Services | – | 7 | (7) | -100% |
| Taiwan Total | <u>60,004</u> | <u>97,414</u> | <u>(37,410)</u> | <u>-38.4%</u> |
| Others | | | | |
| Products | 5,495 | 2,022 | 3,473 | 171.8% |
| Services | 444 | 314 | 130 | 41.4% |
| Others Total | <u>5,939</u> | <u>2,336</u> | <u>3,603</u> | <u>154.2%</u> |

The PRC Market

The Group's turnover in the PRC market decreased by 25.5% for the six months ended 30 June 2022 to HK\$97.6 million as compared with HK\$131.1 million for the six months ended 30 June 2021. Gross margin of product sales was 53.6% for the six months ended 30 June 2022 as compared with 64.2% for the six months ended 30 June 2021. The key reasons to the aforementioned changes are : (1) the changes in revenue mix of products bundling in the PRC market; (2) COVID related policy implemented in the PRC. In particular, the 2-month lockdown in Shanghai in the first half of 2022 has led to the accumulation of fixed costs which further imposes pressure on the gross profit margin.

Taiwan Market

The Group's turnover in the Taiwan market decreased by 38.4% from HK\$97.4 million for the six months ended 30 June 2021 to HK\$60.0 million for the six months ended 30 June 2022. The significant decrease in sales in the Taiwan market was mainly attributable to the “coexistence with virus and effective epidemic control” policy implemented in Taiwan which prompted a drastic increase in Taiwan's COVID cases within two months in the first half of 2022. The drastic increase of COVID cases in Taiwan had adversely affected the Group's operations in the Taiwan market. Gross margin decreased from 69.7% for the six months ended 30 June 2021 to 65.8% for the six months ended 30 June 2022. The key reason of the decrease in gross margin is the changes in business channels, which in turn changed the revenue mix.

Distribution channels

For revenue by sales channel, the Group achieved HK\$137.4 million sales from franchised/self-owned spas, medical cosmetology centers and counters for the six months ended 30 June 2022 which decreased by HK\$27.3 million as compared to the six months ended 30 June 2021 (HK\$164.7 million for the six months ended 30 June 2021), representing 84.0% of the Group's total revenue (71.4% for the six months ended 30 June 2021).

For sales from E-commerce, TV shopping and telemarketing channels, the Group achieved HK\$26.2 million sales which decreased by HK\$39.9 million as compared to the six months ended 30 June 2022 (HK\$66.1 million for the six months ended 30 June 2021), representing 16.0% of the Group total revenue (28.6% for the six months ended 30 June 2021).

| Store Number by Ownership | Franchisee owned Spa | Self-owned Spa | Total Spa | Self-owned | | Total |
|---------------------------|----------------------|----------------|--------------|--------------------|---------------------|--------------|
| | | | | Self-owned Counter | Medical Cosmetology | |
| As at 30 June 2022 | | | | | | |
| PRC | 1,023 | 3 | 1,026 | 9 | - | 1,035 |
| Taiwan | 345 | - | 345 | - | - | 345 |
| Others | 25 | 1 | 26 | - | - | 26 |
| Total | 1,393 | 4 | 1,397 | 9 | - | 1,406 |

| Store Number by Ownership | Franchisee owned Spa | Self-owned Spa | Total Spa | Self-owned | | Total |
|---------------------------|----------------------|----------------|--------------|--------------------|---------------------|--------------|
| | | | | Self-owned Counter | Medical Cosmetology | |
| As at 30 June 2021 | | | | | | |
| PRC | 887 | 3 | 890 | 9 | 1 | 900 |
| Taiwan | 355 | - | 355 | - | - | 355 |
| Others | 27 | 1 | 28 | - | - | 28 |
| Total | 1,269 | 4 | 1,273 | 9 | 1 | 1,283 |

The Group derives its income principally from its network of distribution channels, including spas and concessionary counters in department stores. As at 30 June 2022, there were 1,397 spas and 9 concessionary counters. Amongst them, 1,393 were franchised spas, while 4 spas and 9 concessionary counters 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 65 new stores were opened and 12 stores were closed during the six months ended 30 June 2022.

Research and Development (“R&D”)

The Group places great emphasis on research and development, and strives to maintain its competitive edge with the main objective of developing new products and optimizing the quality and efficacy of existing products. The Group’s philosophy is “witness testimony, physical evidence and science”. Therefore, the combination of basic research and industry-academia is the most important core value of our R&D team. Our R&D team consists of more than ten researchers with experience in cosmetics, medicine, pharmacy and biochemistry, and a number of top beauty and biochemical consultants at home and abroad. Regarding research and development of new technologies, our R&D team cooperates with professional laboratories in many countries, including Europe, Japan and Australia. In terms of hardware equipment, the Group has established two R&D bases. The Group leverages the research power and resources of National Taiwan University for product development, technology transfer and other cooperation. The cooperation has generated significant synergy effect as it improves revenue for the Group while also provides opportunities to cultivate research talents in the University. In terms of patent layout, the Group has also devoted itself to the development of its own patented products, and has obtained several stem cell patents and a plant extraction patent. In the future, the Group will actively deploy patents related to plant extraction in response to the current market trends and will invite scholars from different fields of industry, government and academia to jointly hold an annual industry-academia summit meeting with our R&D team, channel, marketing and other business units to give suggestions and discussions on development direction, product quality and other aspects.

Products

During the six months ended 30 June 2022, the Group's flagship NB-1 products accounted for 28.5% of total product sales. Sales of NB-1 branded products reached HK\$46.6 million for the six months ended 30 June 2022.

In response to market demand and based on our research, the Group successfully launched the Spain INDIBA diathermy in March 2022, which opened a new upsurge in health and wellness, and such product generated individual revenue accounted for 13% of total revenue, bringing the total to HK\$21,000,000. At the same time, some mid-and low-priced products such as aromatic compact slimming essential oil, coconut oil makeup remover, White Kidney Bean and VB3 essence tube were launched. These new products generated HK\$4,700,000 in revenue, filling the gap in the existing channels and increased the brand's popularity.

Human Resources

As at 30 June 2022, the Group had a total of 573 employees, of which 404 were based in the PRC, 149 in Taiwan and 20 in other countries and regions. Total remuneration for the six months ended 30 June 2022 was approximately HK\$73.5 million (HK\$74.1 million for the six months ended 30 June 2021), including retirement benefit related costs of HK\$5.7 million (HK\$4.3 million for the six months ended 30 June 2021). There were no stock option expenses for the six months ended 30 June 2022 (nil for the six months ended 30 June 2021). 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\$11.4 million for the six months ended 30 June 2022 was mainly related to the new plant construction in the PRC amounting to HK\$7.8 million, opening of new stores, renovation and equipment amounting to HK\$2.6 million and office decoration to HK\$1.0 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 2022, the Group's right-of-use assets were HK\$70.0 million (HK\$61.0 million as at 30 June 2021) and its lease liabilities were HK\$23.2 million (HK\$12.0 million as at 30 June 2021). For the six months ended 30 June 2022, depreciation charges of right-of-use assets amounted to HK\$4.6 million and interest charges of lease liabilities amounted to HK\$0.6 million.

Pledged assets

As at 30 June 2022, the Group's secured short-term and long-term bank borrowings were secured by certain freehold land, buildings and right-of-use assets related to leasehold land, with carrying amount of HK\$95.3 million (HK\$102.4 million as at 31 December 2021).

OUTLOOK

Natural Beauty has continuously integrated the resources of the Eastern Media International Corporation (“**EMIC**”) to innovate the quality of service and product development, as well as to expand the franchise chains, e-commerce, telemarketing, and TV shopping channels to enhance brand power and marketing exposure. In the first half of 2022, the shifts in the pandemic-related policy had a huge adverse impact on the sales of brick-and-mortar stores. Therefore, the young and brand-new daily-use products with affordable prices have been launched through multi-channels to target the young generation and thereby in the hope of driving growth in the second half of 2022.

Key Market Development Strategies

- Taiwan: With the recurrence of the COVID pandemic and the policy of “coexistence with the virus and effective epidemic control”, face-to-face sales were adversely affected by the high infection rate. Therefore, the order volume of direct sales channels dropped in the first half of 2022. Through the various media resources of the EMIC, we continue to advertise our brand and products as well as maintain our growth momentum via our presence in online and offline channels operated by our business partners. In addition, we strengthened product diversity and introduced key health supplements to generate revenue for franchised stores and expand sales opportunities.
- PRC: The government's “zero” policy imposed on the COVID outbreak led to the lockdown of Shanghai in April and May, which caused a huge impact on production, logistics, and brick-and-mortar sales. However, Natural Beauty has proved its brand value under this circumstance by attracting increasing number of franchisers during the period thereby reaching a new milestone of our franchise expansion. In the second half of 2022, Natural Beauty will expand its investment and continue to rapidly increase the number of stores based on its reliable brand value, creating a concentrated network to serve the communities. Meanwhile, we have launched a “Natural Beauty Live-Streaming Business School” to welcome the franchisers by inviting them to join the e-commerce sales and marketing workshops, sharing successful experiences in promoting affordable goods via online private domain and providing offline customized service for high-end clientele. We will continue to improve our brand power and develop innovative biotechnology to remain as the top player in the beauty industry.

The Group has made unremitting efforts to enhance the brand power, consolidate its core business, and gain growth momentum through continuous innovation, steadfastly make breakthroughs and pursue non-stop growth in the midst of the COVID pandemic.

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 (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (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 2022 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 2022 have also been reviewed by RSM Hong Kong, the auditor 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 2022 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 2022.

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 2022 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 C.1.3, Part 2 of the CG Code. 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 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (2021 : Nil).

INTERIM DIVIDEND

No interim dividend for the six months ended 30 June 2022 was declared (2021: Nil).

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

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 2022 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, 3 August 2022

As at the date of this announcement, the Board comprises Dr. Lei Chien and Mr. Pan Yi-Fan as executive directors; 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.