

# Natural Beauty 1H2013 Results Presentation

16 August 2013





## Summarized Results in 1H2013

- Turnover dropped by 18.9%
- Gross margin at 75.9%
- Net profit decreased by 27.7% to HK\$36.1 million
- Net cash 463 million with no borrowings compared to 432 million at 31 Dec 2012
- Interim dividend HK\$0.01 per share (1H2012: HK\$0.02 per share)

# 1H2012 Vs. 1H2013

For six months ended

HK\$ Million	30 June,		Chg %
	2012	2013	
Turnover	250.9	203.6	-18.9%
Gross profit	204.1	154.5	-24.3%
Profit before tax	77.6	36.6	-52.8%
Net profit	50.0	36.1	-27.8%
Dividend per share (HK cents)			
- Interim (HK cents)	2.00	1.00	-50.0%
Dividend payout (%)	79.7	55.4	-24.3
Basic EPS (HK cents)	2.51	1.81	-27.9%

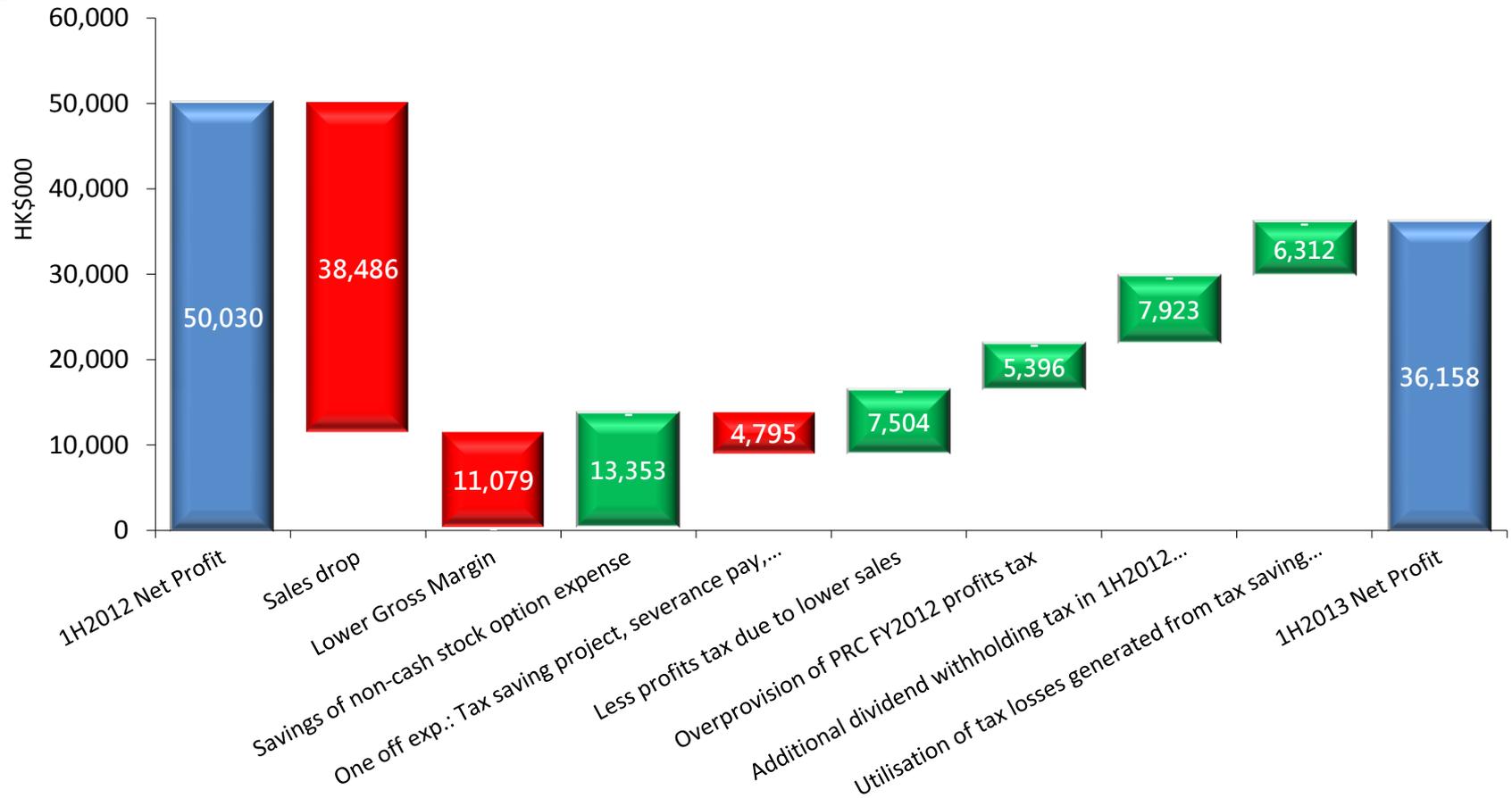
# 1H2012 Vs. 1H2013

	1H2012		1H2013		Variance HK\$'000	Variance %
	Unaudited HK\$'000	As % of T/O	Reviewed * HK\$'000	As % of T/O		
Revenue	250,925	100.0%	203,599	100.0%	(47,326)	-18.9%
Cost of sales	(42,747)	-17.0%	(43,761)	-21.5%	(1,014)	2.4%
Cost of sales-depn	(4,122)	-1.6%	(5,347)	-2.6%	(1,225)	29.7%
<b>Gross profit</b>	<b>204,056</b>	<b>81.3%</b>	<b>154,491</b>	<b>75.9%</b>	<b>(49,565)</b>	<b>-24.3%</b>
Other income	13,729	5.5%	12,631	6.2%	(1,098)	-8.0%
Distribution and selling expenses	(83,256)	-33.2%	(78,277)	-39.4%	4,979	-6.0%
Distribution and selling expenses-depn	(5,270)	-2.1%	(7,720)	-3.8%	(2,450)	46.5%
Administrative expenses	(28,987)	-11.6%	(31,999)	-14.0%	(3,012)	10.4%
Administrative expenses-depn	(5,849)	-2.3%	(6,313)	-3.1%	(464)	7.9%
Administrative expenses-mgt option	(13,952)	-5.6%	(599)	-0.3%	13,353	-95.7%
Other expenses	(2,865)	-1.1%	(5,615)	-2.8%	(2,750)	96.0%
<b>Profit before taxation</b>	<b>77,606</b>	<b>30.9%</b>	<b>36,599</b>	<b>18.7%</b>	<b>(41,007)</b>	<b>-52.8%</b>
Taxation	(27,576)	-11.0%	(441)	-0.2%	27,135	-98.4%
<b>Profit for the period</b>	<b>50,030</b>	<b>19.9%</b>	<b>36,158</b>	<b>18.5%</b>	<b>(13,872)</b>	<b>-27.7%</b>
<b>EPS (HK cents)</b>	<b>2.507</b>		<b>1.806</b>		<b>(0.701)</b>	<b>-28.0%</b>

\* Reviewed by the auditors of the Co.

# Water Fall Chart

## 1H2012 NET PROFIT to 1H2013 NET PROFIT



# Balance sheet at 30 June 2013

	1H2013 Unaudited HK\$'000	FY2012 Audited HK\$'000	Variance HK\$'000	Variance %
<b>Non-current assets</b>				
Investment properties	5,784	5,962	(178)	-3.0%
Property, plant and equipment	262,819	272,762	(9,943)	-3.6%
Prepaid lease payment	9,513	9,465	48	0.5%
Goodwill	28,138	27,643	495	1.8%
Deferred tax assets	-	684	(684)	-100.0%
Deposits paid for acquisition of land use right	12,566	12,303	263	2.1%
	<u>318,820</u>	<u>328,819</u>	(9,999)	-3.0%
<b>Current assets</b>				
Inventories	68,066	67,427	639	0.9%
Trade and other receivables	61,792	55,071	6,721	12.2%
Prepaid lease payment	309	302	7	2.3%
Bank balances and cash	463,075	432,441	30,634	7.1%
	<u>593,242</u>	<u>555,241</u>	38,001	6.8%
<b>Current liabilities</b>				
Trade and other payables	106,722	115,327	(8,605)	-7.5%
Deferred income	7,484	5,927	1,557	26.3%
Current taxation	2,042	4,704	(2,662)	-56.6%
	<u>116,248</u>	<u>125,958</u>	(9,710)	-7.7%
<b>Net current assets</b>	<u>476,994</u>	<u>429,283</u>	47,711	11.1%
<b>Total assets less current liabilities</b>	<u>795,814</u>	<u>758,102</u>	37,712	5.0%
<b>Non-current liabilities</b>				
Deferred taxation	233	-	233	N/A
Retirement benefit obligations	13,271	10,106	3,165	31.3%
	<u>13,504</u>	<u>10,106</u>	3,398	33.6%
<b>Net assets</b>	<u>782,310</u>	<u>747,996</u>	34,314	4.6%

# Cash Flow

Cash Flow For First Six Months (unaudited)	2012 HK\$'000	2013 HK\$'000	Chg %
Operating profits before working capital changes	105,690	58,140	
Increase in inventories	(20,783)	(2,422)	
Increase in trade and other receivables	(7,623)	(10,259)	
Decrease in trade and other payables	(24,927)	(12,654)	
(Decrease)/Increase in retirement benefits obligation	55	(301)	
Tax paid	(30,762)	(934)	
Cash generated from operations	21,650	31,570	46%
Investing Cash Flow - CAPEX	(21,253)	(7,823)	
Investing Cash Flow - interest income	3,765	3,974	
Proceeds from disposal of PPE	3,759	0	
Decrease in pledged bank deposit	443	0	
Financing activities - Dividends paid	(100,105)	0	
Exchange effect	1,705	2,913	
Free Cash Flow	(90,036)	30,634	
Opening Cash at 1 January	558,292	432,441	
Closing Cash at 30 June	468,256	463,075	-1%

# Key Ratios

	For six months ended 30 June, 2012	For year ended 31 December, 2012	For six months ended 30 June, 2013	vs. 12/2012 Chg
A/R days *	23 days	18 days	23 days	5 days
A/P days *	111 days	63 days	51 days	-12 days
Inventory turnover days *	228 days	238 days	253 days	15 days
ROE * (%)	13.3	15.3	9.2	-6.1 pts
ROA * (%)	11.1	13.0	7.9	-5.1 pts
Cash (HK\$ million)	468.3	432.4	463.1	7.1%
Gearing Ratio	Net cash	Net Cash	Net Cash	N/A
Dividend payout (%)	79.9	33.6	55.4	21.8 pts
Basic EPS (HK cents)	2.51	5.96	1.81	-69.6%

\* Annualized for comparison purpose.

Cash represents 50.8% of total assets as of 30 June 2013.

# Turnover Analysis for 1H2013

Geographical Revenue Breakdown						
Expressed in HK\$'000						
	1H2012	%	1H2013	%	Variance	Var (%)
PRC	189,601	76%	161,060	79%	(28,541)	-15.1%
Taiwan	57,467	23%	39,704	20%	(17,763)	-30.9%
Others	3,857	2%	2,835	1%	(1,022)	-26.5%
<b>Total</b>	<b>250,925</b>	<b>100%</b>	<b>203,599</b>	<b>100%</b>	<b>(47,326)</b>	<b>-18.9%</b>

Revenue By Type Breakdown						
Expressed in HK\$'000						
	1H2012	%	1H2013	%	Variance	Var (%)
Product sales	248,995	99%	201,693	99%	(47,302)	-19.0%
Services	1,930	1%	1,906	1%	(24)	-1.2%
<b>Total</b>	<b>250,925</b>	<b>100%</b>	<b>203,599</b>	<b>100%</b>	<b>(47,326)</b>	<b>-18.9%</b>

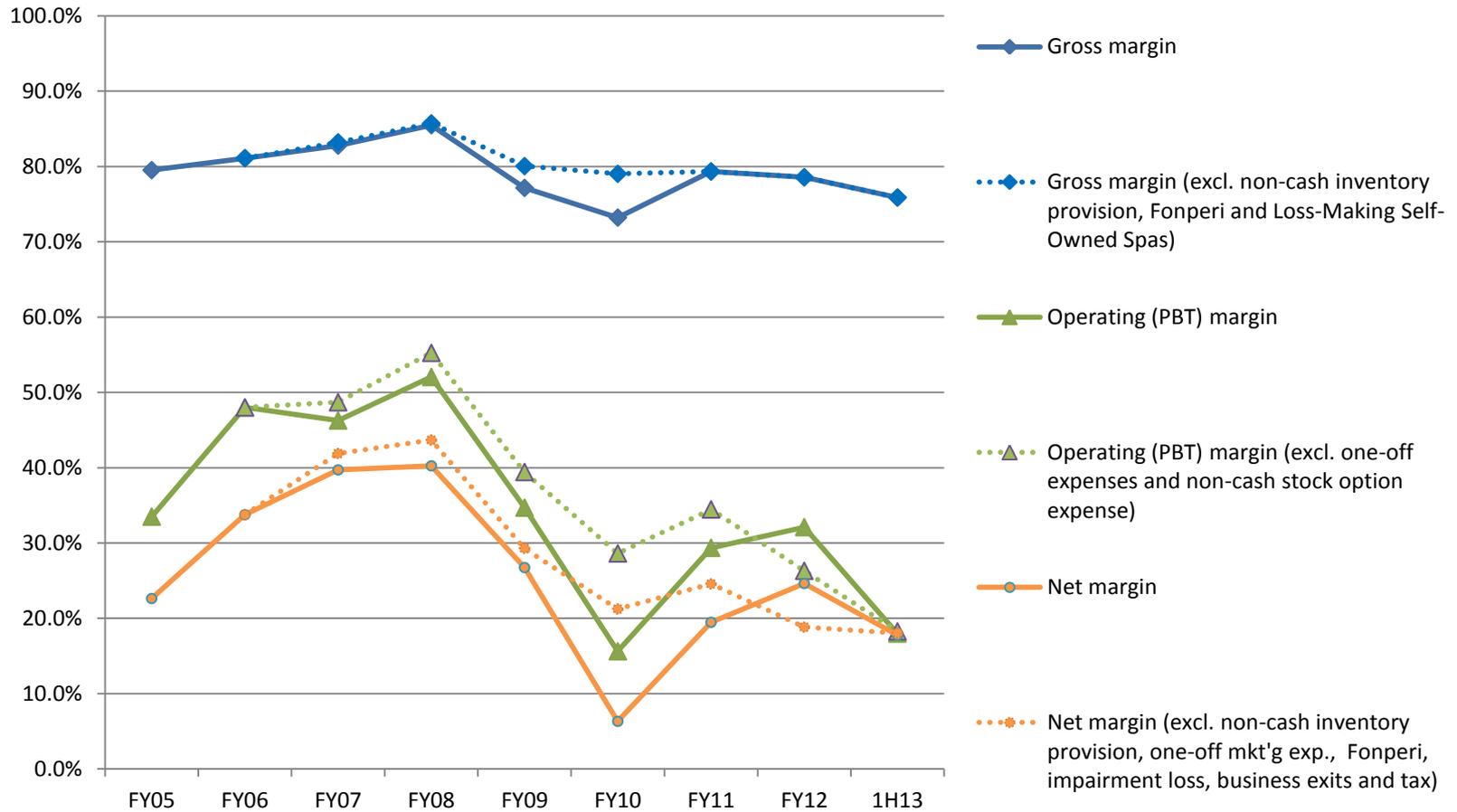
# Store Count at 30 June 2013

As at 30 June 2013		Total	Franchisee owned Spas	Entrusted Counters	Self- owned Spas	Self- owned Counters
The PRC		1,154	1,114	18	1	21
Taiwan		290	287	-	3	-
Others	HK	30	1	-	-	-
	Malaysia		29	-	-	-
Total		1,474	1,431	18	4	21

# Average Sales Per Store

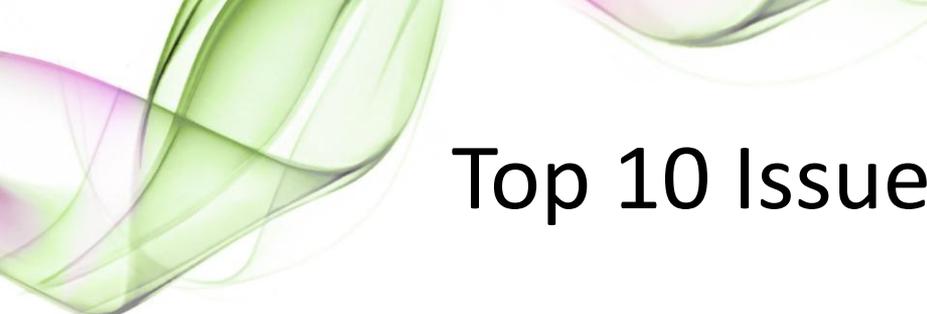
Average Sales Per Store			
(HK\$)	1H2012	1H2013	Chg (%)
PRC	156,000	138,000	-11.5%
Taiwan	183,000	136,000	-25.7%
<b>Group</b>	<b>161,000</b>	<b>138,000</b>	<b>-14.3%</b>

# Group Margins





# Situation Analysis



# Top 10 Issues/Questions(1/2)

**1 - There are no “KA” in areas, more than 90% customers only have 1 store, and 10% customers have 2-3 stores;**

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**2 - NB does not have a system in monitoring/leading franchisees’ “sell-in, sell-thru and inventory control” activities;**

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**3 - Most of franchisees are firm believers of NB, full of passion, but not equipped with commercial capabilities and managerial skills to expand further;**

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**4 - Lack of continuous products and technology training so it’s hard to retain/recruit beauticians;**

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**5 - High inventory built up due to attractive 2011 incentives and high operating cost (mainly rent and labor) combined are attributing to loss for 2012 ;**

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# Top 10 Issues/Questions(2/2)

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**6 - E-commerce business is cannibalizing franchisee business and they blame on NB for not controlling the source of goods on line;**

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**7 - Not enough marketing efforts in helping recruiting new customers; promotions activities were not connecting to consumers directly;**

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**8 - NCS store project enhances NB brand image in general but not as effective on acquiring new customers;**

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**9 - NCS project does not focus on spa management and outfit of treatment rooms;**

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**10 – Poor quality of franchisees, top 500 accounts made up 87.7% 2013 YTD sales in China**

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# Our Strategies

## Protect the Core

—Go “Retail” —consumers/marketplace dictate our behaviors

- ◆ Need to build a consumer oriented corporate culture;
- ◆ Retail accountability – to manage top 300 franchises (aiming to cover Tier 1 & 2 30 cities) as our own spa – sales team to bear retail KPIs
- ◆ Open self-own spas in major CBDs to attract age 30-45 office ladies, set up the best practice, train beauticians pool, and enhance brand awareness

## Expansion—“Regional Competitors” Attack Plan

- ◆ Identify Regional Competitors’ locations potentially serve NB’s targeted consumers;
- ◆ Open self-own SPA or Franchisees’ SPA near by to acquire their customers to increase our penetrations;

## Expansion—New markets

- ◆ E-commerce
- ◆ Stremark

New markets with ample opportunities need more focused efforts in products and marketing to serve consumers, not only relying on brand awareness.