



1H 2014 Investors Presentation

打造
与时俱进的
自然美

To Be The Trend Setter

August 2014

Agenda

- ◆ **1H 2014 Business Review**
- ◆ **1H 2014 Financial Review**

1H 2014 Business Review

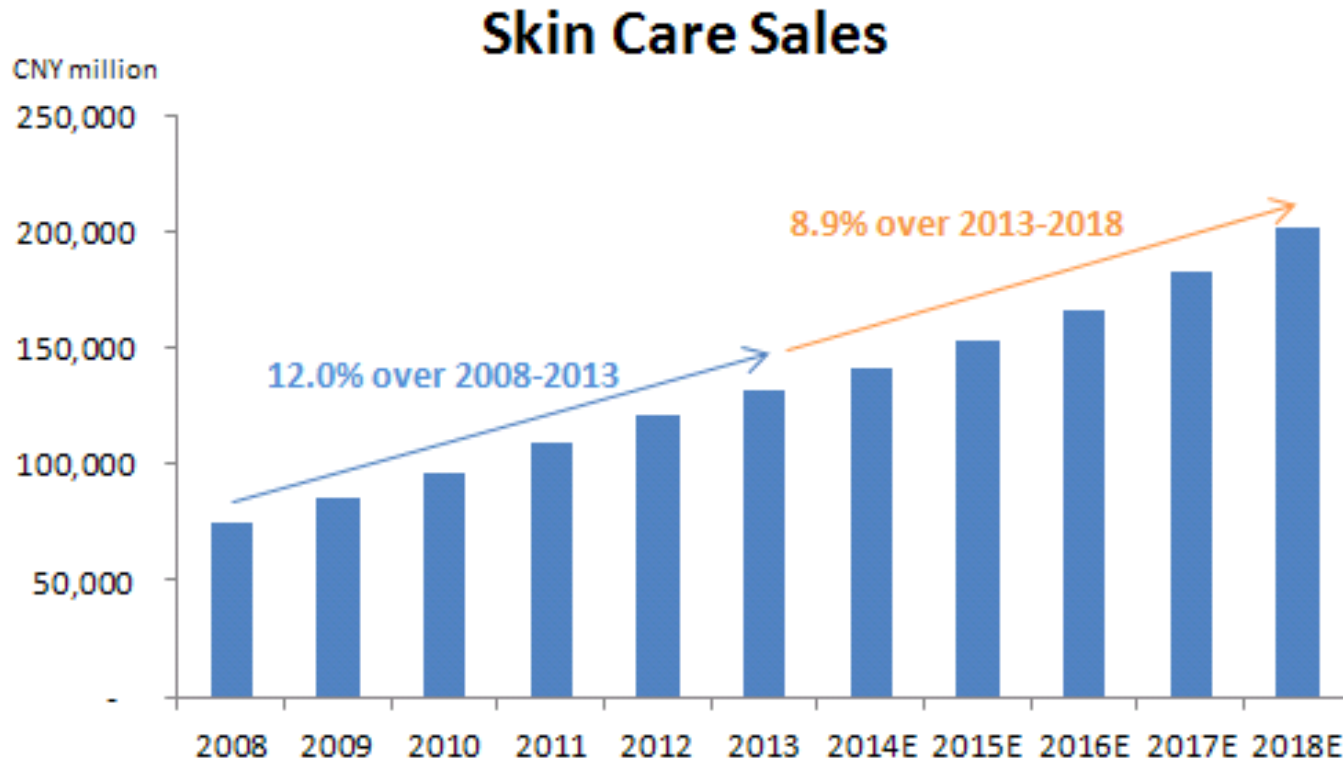
1H2014 Revenue and Door Number Overview

| Revenue by geographic region | 1H2013 (HK'000) | 1H2014 (HK'000) | Chg% 1H2014/1H2013 |
|------------------------------|-----------------|-----------------|-----------------------|
| PRC | 161.1 | 201.8 | 25.3% |
| TW | 39.7 | 44.4 | 11.7% |
| Others | 2.8 | 2.3 | (17.8%) |
| Total | 203.6 | 248.5 | 22.1% |

| Store Number by ownership | Franchisee | Self-owned SPA | Counter | Total |
|------------------------------|--------------|----------------|-----------|--------------|
| PRC | 1,114 | 1 | 39 | 1,154 |
| TW | 287 | 3 | - | 290 |
| Others | 30 | - | - | 30 |
| Total as at 30/6/2013 | 1,431 | 4 | 39 | 1,474 |

| | | | | |
|------------------------------|--------------|----------|-----------|--------------|
| PRC | 1,058 | 1 | 14 | 1,073 |
| TW | 266 | 3 | - | 269 |
| Others | 30 | - | - | 30 |
| Total as at 30/6/2014 | 1,354 | 4 | 14 | 1,372 |

China Skin Care Industry 自然美 natural beauty



Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources

- China skin care value CAGR over 2008 to 2013 is recorded at 12.0%;
- China skin care value CAGR over 2013 to 2018 is predicted at 8.9% by Euromonitor.

2013 Brand Ranking



ALL CHANNELS - SKINCARE - NET SALES 2013

in Thousand Yuan

| LEADING BRANDS | Total all channels | Department Stores | Standalone Boutiques | Beauty salons & Spas | Sephora | Other doors |
|----------------------|--------------------|-------------------|----------------------|----------------------|---------|-------------|
| 1 Estee Lauder | 2,177,925 | 2,007,197 | 12,114 | 0 | 125,262 | 33,352 |
| 2 Lancome | 2,036,221 | 1,895,461 | 0 | 0 | 90,478 | 50,282 |
| 3 Christian Dior | 744,029 | 657,297 | 1,155 | 0 | 76,326 | 9,251 |
| 4 Clinique | 509,865 | 435,333 | 1,643 | 0 | 38,465 | 34,424 |
| 5 Shiseido | 485,316 | 485,316 | 0 | 0 | 0 | 0 |
| 6 SK-II | 473,131 | 434,075 | 0 | 0 | 37,595 | 1,461 |
| 7 Biotherm | 433,047 | 371,555 | 0 | 0 | 37,324 | 24,168 |
| 8 Kiehl's | 430,237 | 315,058 | 50,973 | 0 | 0 | 64,206 |
| 9 Clarins | 428,897 | 374,588 | 0 | 4,538 | 37,282 | 12,489 |
| 10 Chanel | 416,713 | 415,472 | 1,241 | 0 | 0 | 0 |
| 11 Sisley | 405,327 | 403,797 | 0 | 0 | 1,530 | 0 |
| 12 Yue-Sai | 352,487 | 223,725 | 0 | 0 | 0 | 128,762 |
| 13 Guerlain | 305,605 | 256,785 | 0 | 36 | 48,242 | 542 |
| 14 La Mer | 288,345 | 272,316 | 1,425 | 0 | 980 | 13,624 |
| 15 La Prairie | 150,378 | 149,671 | 0 | 0 | 707 | 0 |
| 16 Helena Rubinstein | 110,426 | 104,222 | 0 | 0 | 0 | 6,204 |
| 17 Origins | 103,142 | 79,742 | 13,323 | 0 | 0 | 10,077 |
| 18 Givenchy | 84,252 | 67,354 | 0 | 0 | 16,898 | 0 |
| 19 Clarisonic | 82,917 | 4,636 | 0 | 0 | 74,285 | 3,986 |
| 20 Shu Uemura | 73,870 | 70,136 | 0 | 0 | 335 | 3,399 |

Data Source: Beauty Research

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2014 NB Business Plan



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What have we done for 2014 1H – Marketing

Brand/Product

- Standardize skin diagnosis processes and upgrade the machines
- Build up database of clinical test and consumer trial evidence
- Empower celebrity influences – Nicky Wu (吴奇隆)

Sell-through Support

- Sales team to provide on –site support of customer events/in-door salons to help franchisee to maintain healthy inventory
- To provide standardized sell-through packages i.e. executions SOP, promotion programs, samples and POPs

What have we done for 2014 1H – Training

- NB Systematic Training - 5 functions:



- Setting up the structures in 2014 by:

- Implementing standardized skin diagnosis system;
- Quarterly training on NB's proprietary professionalism and product knowledge in supporting the sell-through programs;
- Working with Consultants to create standardized materials and training to sales team. Our goal is to train all sales as TTT (trainer to trainer) to train/manage/audit franchise's operations (commencing from 2015-2017 for I, II, III classes);
- Setting up beautician's training platform

What have we done for 2014 1H – Channel Strategy



- Piloting “Direct own retail” management system (Project Renaissance)

- Implemented 4 standardizations;
- Sales of piloting 150 key doors increased 110% in 1H2014 vs. 1H2013
- Installed (137) POSs by 6/30

- Key accounts management:

- Door-by-door managed selected 454 key doors to utilize company resources efficiently;
- Sales of 454 key doors increased 15% in 1H2014 vs. 1H2013

1H 2014 Financial Review

Financial Highlight



| HK\$M | (港币 百万) | 1H2013 | 1H2014 | Adjusted 1H2014 * | Chg 1H2014/1H2013 | Chg Adjusted 1H2014/1H2013 |
|--------------------------------|-----------|--------|--------|----------------------|----------------------|-------------------------------|
| Revenue | 收入 | 203.6 | 248.5 | | 22.1% | |
| - PRC | - 中国大陆 | 161.1 | 201.8 | | 25.3% | |
| - TW | - 台湾 | 39.7 | 44.4 | | 11.7% | |
| Gross profit | 毛利 | 154.5 | 190.7 | | 23.4% | |
| EBITDA | 息稅折舊攤銷前利潤 | 49.6 | 81.3 | | 64.0% | |
| Profit before Tax | 稅前淨利 | 36.6 | 54.8 | 67.3 | 49.8% | 83.8% |
| Profit for the period | 稅後淨利 | 36.2 | 29.7 | 48.8 | (17.8%) | 35.0% |
| Cash generated from operations | 经营业务产生之現金 | 32.5 | 115.3 | | 254.8% | |
| Basic EPS (HK cents) | 每股盈餘(港幣元) | 1.8 | 1.5 | 2.4 | (17.8%) | 35.0% |

* Adjusted 1H2014 represents number without impact of impairment 9.0m against the other receivables, 3.5m accrual for tax audit on the PRC tax affairs of a PRC subsidiary for the year 2012 and 2013 and 6.6m under provision of tax of a PRC subsidiary for the year 2012 and 2013.

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Consolidated Statement of Profit or Loss



| HK\$'000 | 1H 2013 | | 1H 2014 | | Variance | Variance % | Remarks |
|---|----------------|---------------|-----------------|---------------|-----------------|---------------|--|
| | | As % of T/O | | As % of T/O | | | |
| Revenue 收入 | 203,599 | 100.0% | 248,523 | 100.0% | 44,924 | 22.1% | PRC YOY+25.3% ; Taiwan YOY+12.1% |
| Cost of sales 銷售成本 | | | | | | | |
| - Cost of sales 銷售成本 | (43,761) | -21.5% | (51,478) | -20.7% | (7,717) | 17.6% | |
| - Depn 折舊 | (5,347) | -2.6% | (6,339) | -2.6% | (992) | 18.6% | |
| Gross profit 毛利 | 154,491 | 75.9% | 190,706 | 76.7% | 36,215 | 23.4% | Margin improved due to sales mix with proportion of higher-margin products |
| Other income 其他收入 | 12,631 | 6.2% | 9,561 | 3.8% | (3,070) | -24.3% | Financial refunds decrease 4.8m |
| Distribution and selling expenses 銷售費用 | | | | | | | |
| - Distribution and selling expenses 銷售費用 | (78,277) | -38.4% | (78,348) | -31.5% | (71) | 0.1% | A&P decreased by 2.2m |
| - Depn 折舊 | (7,720) | -3.8% | (7,114) | -2.9% | 606 | -7.8% | |
| Administrative expenses 管理費用 | | | | | | | |
| - Administrative expenses 管理費用 | (31,998) | -15.7% | (37,424) | -15.1% | (5,426) | 17.0% | professional fees for closing Hong Kong office, for outsourced corporate secretarial services and for lower dividend withholding tax application |
| - Depn 折舊 | (6,313) | -3.1% | (6,210) | -2.5% | 103 | -1.6% | |
| - mgt option 選擇權費用 | (600) | -0.3% | (534) | -0.2% | 66 | -11.0% | |
| Other expenses 其他費用 | (5,615) | -2.8% | (15,823) | -6.4% | (10,208) | 181.8% | Related exp. of rental property 1.0m; exchange loss 2.0m; impairment 9.0m against the other receivables |
| Profit before taxation 稅前淨利 | 36,599 | 18.0% | 54,814 | 22.1% | 18,215 | 49.8% | |
| Taxation 所得稅費用 | (441) | -0.2% | (25,101) | -10.1% | (24,660) | 5591.8% | Higher profit tax provision 14.6m due to sales increase; 6.6m underprovision of tax of a PRC subsidiary for the year 2012 and 2013 |
| Profit for the period 稅後淨利 | 36,158 | 17.8% | 29,713 | 12.0% | (6,445) | -17.8% | |
| EBITDA 息稅折舊攤銷前利潤* | 49,563 | 24.3% | 81,273 | 32.7% | 31,710 | 64.0% | |

* EBITDA = Profit before taxation - (Depn) - (mgt option) - Other income - (Other Exp.)

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Balance sheet



| HK\$'000 | | Dec 2013 | Jun 2014 | Chg% | Remark |
|--------------------------------|------------|----------------|------------------|---------------|---|
| Inventories | 存貨 | 47,047 | 44,715 | (5.0%) | Raw materials 26.0m ; Finished goods 21m; Unrealized profit -3m |
| Trade and other receivables | 應收帳款 | 112,624 | 83,287 | (26.0%) | Trade receivables 66m; Prepaid and others 17m |
| Prepaid lease payments | 自用土地租賃款 | 312 | 298 | (4.5%) | |
| Bank balances and cash | 現金及銀行存款 | 507,409 | 599,556 | 18.2% | |
| Non-Current assets | 非流動資產 | 314,675 | 303,760 | (3.5%) | Buildings and other fixed assets 246m |
| Total Assets | 總資產 | 982,067 | 1,031,616 | 5.0% | |
| Trade and other payables | 應付帳款 | 154,510 | 199,514 | 29.1% | Trade payable 20m; deposits 75m; accrual 46m; Div payable 33m |
| Deferred income | 遞延收益 | 7,779 | 8,078 | 3.8% | |
| Taxation payable | 應付稅款 | 18,544 | 27,338 | 47.4% | |
| Retirement benefit obligations | 退休福利責任 | 12,976 | 13,030 | 0.4% | |
| Total liabilities | 總負債 | 193,809 | 247,960 | 27.9% | |
| Share capital | 股本 | 200,210 | 200,210 | 0.0% | |
| Reserves | 儲備 | 588,048 | 583,446 | (0.8%) | Share capital 200.2m; Retained Profits 198.6m |
| Non-controlling interests | 非控股權益 | 0 | 0 | - | |
| Total Equity | 總權益 | 788,258 | 783,656 | (0.6%) | |

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Cash Flow

| HK\$'000 | | <u>1H 2013</u> | <u>1H 2014</u> | <u>Chg%</u> |
|--|----------|----------------|----------------|--------------|
| OPENING CASH BALANCE | 期初現金 | 432,441 | 507,409 | 17.3% |
| Profit before tax | 稅前淨利 | 36,599 | 54,814 | 49.8% |
| Income taxes paid | 所得稅支出 | (934) | (18,977) | 1931.8% |
| Change in working capital | 營運資金變動 | (4,095) | 60,512 | (1577.7%) |
| CASH FLOW FROM INVESTING ACTIVITIES | 投資活動 | | | |
| Purchase of property, plant and equipment | 購入固定資產價款 | (7,823) | (10,376) | 32.6% |
| Interest Received | 利息收入 | 3,974 | 6,464 | 62.7% |
| CASH FLOW FROM FINANCING ACTIVITIES | 融資活動 | | | |
| Dividends paid | 股利支出 | 0 | 0 | - |
| Foreign Exchange Effect | 匯率變動影響 | 2,913 | (290) | (110.0%) |
| CLOSING CASH BALANCE | 期末現金 | 463,075 | 599,556 | 29.5% |