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NB

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 2021**

HIGHLIGHTS:

- Revenue increased by 47.5% to HK\$230,878,000.
- Net profit recorded of HK\$17,033,000.
- No interim dividend for the six months ended 30 June 2021 was declared (2020: 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 2021, together with the comparative figures for the first half of 2020, as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | | Six months ended 30 June | |
|-----------------------------------------------------------------------|-------------|---------------------------------|------------------------|
| | | 2021 | 2020 |
| | | (unaudited) | (unaudited) |
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| Revenue | 4 | 230,878 | 156,498 |
| Cost of sales | | <u>(85,203)</u> | <u>(63,942)</u> |
| Gross profit | | 145,675 | 92,556 |
| Other income and other gains | | 4,516 | 9,370 |
| Impairment losses, net of reversal | | 3,581 | 143 |
| Distribution and selling expenses | | (84,233) | (70,274) |
| Administrative expenses | | (42,276) | (39,585) |
| Other expenses and other losses | | <u>(1,072)</u> | <u>(2,618)</u> |
| Profit/(loss) from operations | | 26,191 | (10,408) |
| Finance costs | | (750) | (800) |
| Loss on disposal of a subsidiary | | <u>(199)</u> | <u>–</u> |
| Profit/(loss) before tax | | 25,242 | (11,208) |
| Income tax (expense)/credit | 6 | <u>(8,209)</u> | <u>4,761</u> |
| Profit/(loss) for the period | 5 | <u>17,033</u> | <u>(6,447)</u> |
| Other comprehensive income: | | | |
| <i>Item that may be reclassified to profit or loss:</i> | | | |
| Exchange differences on translating foreign operations | | <u>7,474</u> | <u>(7,612)</u> |
| Total comprehensive income for the period | | <u>24,507</u> | <u>(14,059)</u> |
| Profit/(loss) for the period attributable to: | | | |
| Owners of the Company | | <u>17,033</u> | <u>(6,447)</u> |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | <u>24,507</u> | <u>(14,059)</u> |
| Earnings/(loss) per share | | | |
| Basic | 8(a) | <u>HK cents 0.85</u> | <u>HK cents (0.32)</u> |
| Diluted | 8(b) | <u>N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021

| | | Unaudited | Audited |
|-----------------------------------------------------------|-------------|------------------|-----------------|
| | | 30 June | 31 December |
| | | 2021 | 2020 |
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | | 318,796 | 309,540 |
| Investment properties | | 8,893 | 8,817 |
| Right-of-use assets | | 60,954 | 57,037 |
| Goodwill | | 29,136 | 28,818 |
| Intangible assets | | 5,965 | 14,054 |
| Deposits for purchase of property, plant and equipment | | 3,021 | 2,982 |
| Deferred tax assets | | 13,101 | 10,243 |
| | | 439,866 | 431,491 |
| Current assets | | | |
| Inventories | | 119,573 | 103,280 |
| Trade and other receivables | 9 | 160,674 | 130,896 |
| Contract costs | | 728 | 699 |
| Pledged bank deposits | | 3,675 | 3,628 |
| Bank and cash balances | | 160,537 | 161,978 |
| | | 445,187 | 400,481 |
| Current liabilities | | | |
| Trade and other payables | 10 | 125,967 | 123,338 |
| Amount due to a related party | | 211 | 329 |
| Dividend payables | 7 | 6,006 | – |
| Contract liabilities | | 13,326 | 11,830 |
| Borrowings | | 77,320 | 54,273 |
| Lease liabilities | | 5,446 | 5,213 |
| Current tax liabilities | | 9,157 | 9,682 |
| | | 237,433 | 204,665 |
| Net current assets | | 207,754 | 195,816 |
| Total assets less current liabilities | | 647,620 | 627,307 |

| | Unaudited | Audited |
|--------------------------------|------------------------|------------------------|
| | 30 June | 31 December |
| | 2021 | 2020 |
| <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current liabilities | | |
| Borrowings | 10,769 | 13,254 |
| Lease liabilities | 6,573 | 2,281 |
| Retirement benefit obligations | 547 | 542 |
| | <u>17,889</u> | <u>16,077</u> |
| NET ASSETS | <u>629,731</u> | <u>611,230</u> |
| Capital and reserves | | |
| Share capital | 200,210 | 200,210 |
| Reserves | 429,521 | 411,020 |
| TOTAL EQUITY | <u>629,731</u> | <u>611,230</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

(With comparatives for the six months ended 30 June 2020 and as of 31 December 2020)

(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 2020 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 2020.

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 2020. 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 2021 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 2021 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 2021

| | 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>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> |

Period ended 30 June 2020

| | The PRC (unaudited) HK\$'000 | Taiwan (unaudited) HK\$'000 | Others (unaudited) HK\$'000 | Total (unaudited) HK\$'000 |
|---------------------------------|---------------------------------------------|--------------------------------------------|--------------------------------------------|-------------------------------------------|
| Revenue from external customers | <u>79,494</u> | <u>74,852</u> | <u>2,152</u> | <u>156,498</u> |
| Segment (loss)/profit | <u>(14,213)</u> | <u>5,727</u> | <u>2,140</u> | (6,346) |
| Unallocated corporate expenses | | | | (5,496) |
| Unallocated income | | | | <u>634</u> |
| Consolidated loss before tax | | | | <u>(11,208)</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 2021 (unaudited) HK\$'000 | 31 December 2020 (audited) HK\$'000 |
|---------------------------|------------------------------------------------------|----------------------------------------------|
| Non-current assets | | |
| The PRC | 365,296 | 359,225 |
| Taiwan | 59,023 | 59,688 |
| Others | 2,446 | 2,335 |
| | <hr/> | <hr/> |
| Consolidated total | 426,765 | 421,248 |
| | <hr/> <hr/> | <hr/> <hr/> |

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 | |
|--------------------------------------------------|--------------------------|-----------------------|
| | 2021 | 2020 |
| | (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 | 223,725 | 152,938 |
| Service income | <u>7,153</u> | <u>3,560</u> |
| | <u>230,878</u> | <u>156,498</u> |

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

| | Six months ended 30 June | |
|---------------------------------------------|--------------------------|-----------------------|
| | 2021 | 2020 |
| | (unaudited) | (unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Primary geographical markets | | |
| The PRC | 131,236 | 79,494 |
| Taiwan | 97,414 | 74,852 |
| Others | <u>2,228</u> | <u>2,152</u> |
| | <u>230,878</u> | <u>156,498</u> |
| Timing of revenue recognition | | |
| Products transferred at a point in time | 223,725 | 152,938 |
| Products and services transferred over time | <u>7,153</u> | <u>3,560</u> |
| | <u>230,878</u> | <u>156,498</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 2021 and the expected timing of recognising revenue as follows:

| | 30 June 2021 (unaudited) HK\$'000 | 31 December 2020 (audited) HK\$'000 |
|-----------------|------------------------------------------------------|----------------------------------------------|
| Within one year | <u>13,326</u> | <u>11,830</u> |

5. PROFIT/(LOSS) FOR THE PERIOD

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

| | Six months ended 30 June | |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|---------------------------------|
| | 2021 (unaudited) HK\$'000 | 2020 (unaudited) HK\$'000 |
| Depreciation of property, plant and equipment | 12,127 | 13,798 |
| Depreciation of right-of-use assets (included in cost of sales, distribution and selling expenses and administrative expenses) | 3,706 | 4,217 |
| Amortisation of intangible assets | 960 | 876 |
| Total staff cost (including directors' emoluments) | 64,582 | 59,222 |
| (Gain)/loss on disposal of property, plant and equipment | (4) | 2,133 |
| Reversal of allowance for trade receivables | (3,581) | (143) |
| Allowance for obsolete inventories (included in cost of sales) | 5,125 | 3,491 |
| Net exchange loss | 63 | 213 |
| Interest income on bank deposits | (985) | (634) |
| Cost of inventories recognised as cost of sales | 75,892 | 42,050 |
| Operating lease charge within 12 months | <u>3,184</u> | <u>4,342</u> |

6. INCOME TAX EXPENSE/(CREDIT)

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

| | Six months ended 30 June | |
|-------------------------------------------------|---------------------------------|---------------------------------|
| | 2021 (unaudited) HK\$'000 | 2020 (unaudited) HK\$'000 |
| Current tax – PRC Enterprise Income Tax (“EIT”) | | |
| Provision for the period | 759 | 1,006 |
| Under provision in prior period | <u>146</u> | <u>538</u> |
| | <u>905</u> | <u>1,544</u> |
| Current tax – Taiwan Corporate Income Tax | | |
| Provision for the period | <u>7,068</u> | <u>1,865</u> |
| Withholding tax | <u>1,206</u> | <u>–</u> |
| Deferred taxation | <u>(970)</u> | <u>(8,170)</u> |
| | <u>8,209</u> | <u>(4,761)</u> |

PRC EIT has been provided at a rate of 25% (2020: 25%). The statutory withholding income tax rate for non-PRC resident is 10% (2020:10%).

Pursuant to the relevant laws and regulations in the PRC and Taiwan, dividend withholding tax is imposed at a rate of 10% (2020: 10%) and 21% (2020: 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\$752,000 were recognised for the PRC (2020:Nil) and no withholding tax on dividends were recognised for Taiwan (2020: Nil) for the six months period ended 30 June 2021.

Corporate Income Tax in Taiwan has been provided at a rate of 20% (2020: 20%) for the six months period ended 30 June 2021.

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% (2020: 8.25%), and profits above that amount will be subject to the tax rate of 16.5% (2020: 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% (2020: 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 2021, a final dividend of HK\$0.003 per share in respect of the year ended 31 December 2020 (2020: Nil) were declared to be payable to the owners of the Company. The aggregate amount of the final dividend amounted approximately to HK\$6,006,000 is recognised as dividend payable as of 30 June 2021 (2020: Nil).

The directors do not recommend the payment of any interim dividend for the six months period ended 30 June 2021 (2020: Nil).

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the profit for the period attributable to the owners of the Company of approximately HK\$17,033,000 (2020: loss of HK\$6,447,000) and the weighted average number of ordinary share of approximately 2,002,100,932 (2020: 2,002,100,932) in issue during the period.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share for the six months period ended 30 June 2021 and 2020 is presented as the Company had no potential ordinary shares outstanding.

9. TRADE AND OTHER RECEIVABLES

| | 30 June 2021 (unaudited) HK\$'000 | 31 December 2020 (audited) HK\$'000 |
|---------------------------------|------------------------------------------------------|----------------------------------------------|
| Trade receivables | 123,109 | 122,723 |
| Less: Allowance for credit loss | <u>(5,539)</u> | <u>(9,011)</u> |
| | 117,570 | 113,712 |
| Prepayments | 32,846 | 12,026 |
| Deposits | 2,847 | 2,903 |
| Other receivables | 7,343 | 1,810 |
| Right-of-return assets | <u>68</u> | <u>445</u> |
| | <u>160,674</u> | <u>130,896</u> |

The Group allows an average credit period of 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 2021 (unaudited) HK\$'000 | 31 December 2020 (audited) HK\$'000 |
|-----------------|------------------------------------------------------|----------------------------------------------|
| Within 180 days | 108,009 | 102,343 |
| Over 180 days | 9,561 | 11,369 |
| | <u>117,570</u> | <u>113,712</u> |

10. TRADE AND OTHER PAYABLES

| | 30 June 2021 (unaudited) HK\$'000 | 31 December 2020 (audited) HK\$'000 |
|---------------------------|------------------------------------------------------|----------------------------------------------|
| Trade payables | 42,325 | 26,147 |
| Deposits from franchisees | 26,214 | 29,322 |
| Other tax payables | 3,291 | 7,662 |
| Accruals | 40,096 | 44,599 |
| Other payables | 13,780 | 14,428 |
| Refund liabilities | 261 | 1,180 |
| | <u>125,967</u> | <u>123,338</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 2021 (unaudited) HK\$'000 | 31 December 2020 (audited) HK\$'000 |
|---------------------|------------------------------------------------------|----------------------------------------------|
| Within 90 days | 42,275 | 25,539 |
| 91 days to 365 days | 29 | 12 |
| Over 365 days | 21 | 596 |
| | <u>42,325</u> | <u>26,147</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by segment

| | 1H 2021 | | 1H 2020 | | Changes | |
|--------------|----------------|---------------|----------------|---------------|---------------|--------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| PRC | 131,128 | 56.8% | 79,494 | 50.8% | 51,634 | 65.0% |
| Taiwan | 97,414 | 42.2% | 74,852 | 47.8% | 22,562 | 30.1% |
| Others | 2,336 | 1.0% | 2,152 | 1.4% | 184 | 8.6% |
| Total | 230,878 | 100.0% | 156,498 | 100.0% | 74,380 | 47.5% |

During the six months ended 30 June 2021, turnover of the Group increased by 47.5% or HK\$74.4 million from HK\$156.5 million for the six months ended 30 June 2020 to HK\$230.9 million.

For the six months ended 30 June 2021, turnover in the PRC market increased by 65.0% or HK\$51.6 million from HK\$79.5 million for the six months ended 30 June 2020 to HK\$131.1 million; and turnover in Taiwan increased by 30.1% or HK\$22.6 million from HK\$74.9 million for the six months ended 30 June 2020 to HK\$97.4 million for the six months ended 30 June 2021.

Sales from other regions, including Hong Kong, Macau and Malaysia, increased by 8.6% to HK\$2.3 million for the six months ended 30 June 2021. Sales contribution from these regions remained to be at an insignificant level of just 1.0% of the Group's turnover for the six months ended 30 June 2021.

The Group's overall gross profit margin rose from 59.1% for the six months ended 30 June 2020 to 63.1% for the six months ended 30 June 2021 mainly due to the changes in business channels in Taiwan market, which changed the revenue mixture of the group's product/service packages.

| Turnover by activities | 1H 2021 | 1H 2020 | Changes | |
|-------------------------------|-----------------------|-----------------------|----------------------|----------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | % |
| Products | | | | |
| PRC | 124,296 | 78,506 | 45,790 | 58.3% |
| Taiwan | 97,407 | 72,280 | 25,127 | 34.8% |
| Others | 2,022 | 2,152 | (130) | (6.0%) |
| Total | <u>223,725</u> | <u>152,938</u> | <u>70,787</u> | <u>46.3%</u> |
| Services | | | | |
| PRC | 6,832 | 988 | 5,844 | 591.5% |
| Taiwan | 7 | 2,572 | (2,565) | (99.7%) |
| Others | 314 | – | 314 | – |
| Total | <u>7,153</u> | <u>3,560</u> | <u>3,593</u> | <u>100.9%</u> |

| Turnover by activities | 1H 2021 | | 1H 2020 | | Changes | |
|-------------------------------|-----------------------|----------------------|-----------------------|----------------------|----------------------|---------------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Products | 223,725 | 96.9% | 152,938 | 97.7% | 70,787 | 46.3% |
| Services | 7,153 | 3.1% | 3,560 | 2.3% | 3,593 | 100.9% |
| Total | <u>230,878</u> | <u>100.0%</u> | <u>156,498</u> | <u>100.0%</u> | <u>74,380</u> | <u>47.5%</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 and make-up products under the “Natural Beauty” brand and new beauty apparatus. Product sales are the Group’s key revenue source and are primarily derived 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 2021 amounted to HK\$223.7 million, or 96.9% of the Group’s total revenue, representing an increase of HK\$70.8 million or by 46.3% as compared with product sales of HK\$152.9 million for the six months ended 30 June 2020. The increase in product sales was mainly due to the increase in turnover in such segment in the PRC market by 58.3% to HK\$124.3 million for the six months ended 30 June 2021 as compared with HK\$78.5 million for the corresponding period last year.

| Service income | 1H 2021 | | 1H 2020 | | Changes | |
|----------------------------------------------|--------------|---------------|--------------|---------------|--------------|---------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Training income | 19 | 0.3% | 30 | 0.8% | (11) | (36.7%) |
| Spa/medical cosmetology service income | 6,844 | 95.6% | 3,451 | 96.9% | 3,393 | 98.3% |
| Others | 290 | 4.1% | 79 | 2.3% | 211 | 267.1% |
| Total | 7,153 | 100.0% | 3,560 | 100.0% | 3,593 | 100.9% |

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 2021, the Group had three self-owned spas and one self-owned medical cosmetology centres 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 2021, service income increased by 100.9% to HK\$7.2 million as compared with HK\$3.6 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 98.3% to HK\$6.8 million as compared with HK\$3.5 million for the corresponding period last year.

Other income and other gains

Other income and other gains decreased by HK\$4.9 million or 52.1% from HK\$9.4 million for the six months ended 30 June 2020 to HK\$4.5 million for the six months ended 30 June 2021. Other income and other gains mainly comprised rental income from other properties, government grants, and interest income, of HK\$1.8 million, HK\$1.3 million, and HK\$1.0 million respectively during the six months ended 30 June 2021.

Selling and administrative expenses

Distribution and selling expenses as a percentage of the Group's turnover decreased to 36.5% for the six months ended 30 June 2021 as compared with 44.9% for the six months ended 30 June 2020. The distribution and selling expenses increased by HK\$13.9 million from HK\$70.3 million for the six months ended 30 June 2020 to HK\$84.2 million for the six months ended 30 June 2021. Salaries increased by HK\$8.1 million from HK\$30.8 million for the six months ended 30 June 2020 to HK\$38.9 million for the six months ended 30 June 2021.

Other key expenses included advertising expenses of HK\$18.0 million, depreciation charges of HK\$6.9 million, freight on sales of HK\$5.2 million, rental expenses of HK\$2.9 million, consultancy and professional expenses of HK\$2.7 million as well as travelling charges of HK\$2.7 million for the six months ended 30 June 2021.

Total administrative expenses increased by HK\$2.7 million, or 6.8%, to HK\$42.3 million for the six months ended 30 June 2021 as compared with HK\$39.6 million for the six months ended 30 June 2020. Administrative expenses mainly comprised consultancy and professional fee of HK\$9.6 million, staff costs and retirement benefits of HK\$15.0 million, depreciation charges of HK\$5.2 million and office and utility expenses of HK\$2.4 million.

Other expenses and other losses

Other expenses and other losses decreased by HK\$1.4 million, from HK\$2.6 million for the six months ended 30 June 2020 to HK\$1.1 million for the six months ended 30 June 2021. Other expenses and other losses for the six months ended 30 June 2021 mainly included related expenses of rental property of HK\$0.8 million and exchange loss of HK\$0.1 million.

Profit before tax

Taking into account the increase in gross profit, profit before tax increased by 325.0% from loss of HK\$11.2 million for the six months ended 30 June 2020 to profit of HK\$25.2 million for the six months ended 30 June 2021.

Taxation

Taxation expenses increased by HK\$13.0 million and became a tax expense of HK\$8.2 million for the six months ended 30 June 2021 as compared with tax credit of HK\$4.8 million for the six months ended 30 June 2020. The effective tax rates of the Group for the six months ended 30 June 2020 and 2021 were 42.5% and 32.5% respectively.

Profit for the period

Profit for the period increased by 365.6% from a loss of HK\$6.4 million for the six months ended 30 June 2020 to a profit of HK\$17.0 million for the six months ended 30 June 2021.

Liquidity and financial resources

Cash generated from operating activities for the six months ended 30 June 2021 was approximately HK\$8.7 million (HK\$9.0 million for the six months ended 30 June 2020). As at 30 June 2021, the Group had cash and cash equivalents of approximately HK\$154.3 million (HK\$154.5 million as at 31 December 2020) with approximately HK\$88.1 million (approximately HK\$67.5 million as at 31 December 2020) being external bank borrowing.

In terms of gearing, as at 31 December 2020 and 30 June 2021, the Group's gearing ratios (defined as net debt divided by shareholders' equity) were 11.0% and 14.0% respectively. Current ratios (defined as current assets divided by current liabilities) of the Group as at 31 December 2020 and 30 June 2021 were 1.96 times and 1.88 times respectively. As at 30 June 2021, 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 2021, approximately 64.2% (67.2% as at 31 December 2020) of the Group's bank balances and cash were denominated in RMB, while approximately 28.5% (26.6% as at 31 December 2020) were in NTD. The remaining 7.3% (6.2% as at 31 December 2020) 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 2021 HK\$'000 | 1H 2020 HK\$'000 | Changes | |
|---------------------|-----------------------|---------------------|---------------|--------------|
| | | | HK\$'000 | % |
| PRC | | | | |
| Products | 124,296 | 78,506 | 45,790 | 58.3% |
| Services | 6,832 | 988 | 5,844 | 591.5% |
| PRC Total | <u>131,128</u> | <u>79,494</u> | <u>51,634</u> | <u>65.0%</u> |
| Taiwan | | | | |
| Products | 97,407 | 72,280 | 25,127 | 34.8% |
| Services | 7 | 2,572 | (2,565) | (99.7%) |
| Taiwan Total | <u>97,414</u> | <u>74,852</u> | <u>22,562</u> | <u>30.1%</u> |
| Others | | | | |
| Products | 2,022 | 2,152 | (130) | (6.0%) |
| Services | 314 | – | 314 | – |
| Others Total | <u>2,336</u> | <u>2,152</u> | <u>184</u> | <u>8.6%</u> |

The PRC Market

The Group's turnover in the PRC market increased by 65.0% for the six months ended 30 June 2021 to HK\$131.1 million as compared with HK\$79.5 million for the six months ended 30 June 2020. Gross margin of product sales was 64.2% for the six months ended 30 June 2021 as compared with 61.6% for the six months ended 30 June 2020. The key reasons to the aforementioned changes are the changes in the mixture of products with different marginal gross profit and the revenue mixture of the Group's product/beauty apparatus/service package in PRC for the six months ended 30 June 2021.

The Taiwan Market

The Group's turnover in the Taiwan market increased by 30.1% from HK\$74.9 million for the six months ended 30 June 2020 to HK\$97.4 million for the six months ended 30 June 2021. The significant increase in sales of Taiwan market was mainly driven by the increase in revenue from product sales through online and other sales platforms. Gross margin increased from 54.9% for the six months ended 30 June 2020 to 69.7% for the six months ended 30 June 2021. The key reason of the increase in gross margin mainly due to the changes in business channels, which changed the revenue mixture.

Distribution channels

For revenue by sales channel, the Group achieved HK\$164.7 million sales from franchised/self-owned spas, medical cosmetology centers and counters for the six months ended 30 June 2021 which increased by HK\$49.5 million compared to the six months ended 30 June 2020 (HK\$115.2 million for the six months ended 30 June 2020), representing 71.4% of the Group's total revenue (73.6% for the six months ended 30 June 2020).

For sales from E-commerce, TV shopping and telemarketing channels, the Group achieved HK\$66.1 million sales which increased by HK\$24.8 million compared to the six months ended 30 June 2021 (HK\$41.3 million for the six months ended 30 June 2020), representing 28.6% of the Group total revenue (26.4% for the six months ended 30 June 2020).

| 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 | 0 | 355 | - | - | 355 |
| Others | 27 | 1 | 28 | - | - | 28 |
| Total | 1,269 | 4 | 1,273 | 9 | 1 | 1,283 |

| Store Number by Ownership | Franchisee owned Spa | Self-owned Spa | Total Spa | Self-owned | | Total |
|---------------------------|----------------------|----------------|--------------|--------------------|---------------------|--------------|
| | | | | Self-owned Counter | Medical Cosmetology | |
| As at 30 June 2020 | | | | | | |
| PRC | 859 | 2 | 861 | 9 | 2 | 872 |
| Taiwan | 286 | 9 | 295 | - | - | 295 |
| Others | 25 | - | 25 | - | - | 25 |
| Total | 1,170 | 11 | 1,181 | 9 | 2 | 1,192 |

The Group derives its income principally from its network of distribution channels, including spas and concessionary counters in department stores. As at 30 June 2021, there were 1,273 spas, 9 concessionary counters and 1 medical cosmetology centre. Of these, 1,269 were franchised spas, while 4 spas, 9 concessionary counters and 1 medical cosmetology centre 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 142 new stores were opened and 76 stores were closed during the six months ended 30 June 2021.

Research and Development

The Group puts significant emphasis on research and development (“**R&D**”) which allows it to maintain its competitive edge, 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 use 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 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 2021, the Group’s flagship NB-1 products accounted for 31% of total product sales. Sales of NB-1 branded products reached HK\$70.4 million for the six months ended 30 June 2021.

Based on the continuous research and strategic planning of the beauty market, and following market trends and hot spots, the fit management package, which went on sale in April, sold 1,700 units in the year to June, bringing in HK\$4.8 million. In June this year, we successfully launched the Sapphire essence liquid, which sold 7,100 units up till 30 June 2021, bringing in HK\$8.1 million and setting a new monthly sales record for the Group.

Human Resources

As at 30 June 2021, the Group had a total of 613 employees, of whom 424 were based in the PRC, 170 in Taiwan and 19 in other countries and regions. Total remuneration for the six months ended 30 June 2021 was approximately HK\$64.6 million (HK\$59.2 million for the six months ended 30 June 2020), including retirement benefit related costs of HK\$4.3 million (HK\$1.8 million for the six months ended 30 June 2020). There were no stock option expenses for the six months ended 30 June 2020 (nil for the six months ended 30 June 2020). 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\$27.3 million for the six months ended 30 June 2021 was mainly related to the new plant construction in the PRC amounting to HK\$21.7 million, opening of new stores, renovation and equipment amounting to HK\$3.7 million and IT infrastructure amounting to HK\$1.5 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 2021, the Group's right-of-use assets were HK\$61.0 million (HK\$74.9 million as at 30 June 2020) and its lease liabilities were HK\$12.0 million (HK\$26.0 million as at 30 June 2020). For the six months ended 30 June 2021, depreciation charges of right-of-use assets amounted to HK\$3.7 million and interest charges of lease liabilities amounted to HK\$0.3 million.

Pledged assets

As at 30 June 2021, the Group's secured short-term and long-term bank borrowings were secured by certain permanent land, buildings and leasehold assets with a book value of HK\$103.1 million (HK\$104.2 million as at 31 December 2020).

OUTLOOK

In terms of long-term deployment, we continued to use resources available from the EMI Group to improve our service quality, product research and development, multi-channel layout, franchising, e-commerce, telemarketing, TV shopping, and ODM/OEM businesses in order to grow rapidly through revenue diversification. Considering the impact of the COVID 19 on physical stores was not fully contained, the growth of online business is set to be the focus this year.

Important market development strategy

- Taiwan: Using the abundant media resources available the EMI Group to build up the awareness of our brand and products, successfully sell our products in all virtual retail channels available from the EMI Group, and retain the momentum to grow. As the outbreak of the pandemic in May affected the operation of physical stores, we developed online live streaming and other direct-to-consumer sales to help our franchisees maintain their revenue. In addition to high-end skin care product lines, we also invest to develop the mid-range products to boost up the online sales.
- PRC: Continue to drive the growth of the franchising business and deploy new channels, with OEM/ODM business and e-commerce starting to generate revenue. The Tmall flagship of Natural Beauty shop has been opened, which will become an important turbo for online sales. The e-commerce channel will grow rapidly with this new engine in the second half of the year.

We will continue to reinforce our competitive edge by staying strong in our core business and exploring new business opportunities simultaneously. Pursuing innovation and sustainable growth pave the way for a new milestone to come.

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 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 2021 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 2021 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 2021 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 2021, except for code provision E.1.2.

Code provision E.1.2 stipulates that the chairman of the board of a listed issuer should attend the annual general meeting. The chairman of the board should also invite the chairmen of the audit, remuneration, nomination and any other committees to attend. In their absence, the chairman of the board should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Mr. CHEN Ruey-Long, the Chairman of the Audit Committee and Mr. YANG Shih-Chien, the Chairman of Nomination Committee were unable to attend to the Company's annual general meeting held on 25 May 2021 due to other overseas commitments. Mr. LU Chi-Chant as a member of each of the Audit Committee and Nomination Committee was invited by Mr. Chen and Mr. Yang to attend the meeting on behalf of them and to respond to questions from shareholders of the Company.

The Company strives to optimise the planning and procedures of annual general meetings, by giving adequate time to all Directors to accommodate their work arrangements and provided all necessary support for their presence and participation at annual general meetings such that the Chairperson of the Board and all directors will be able to attend future annual general meetings of the Company.

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 2021 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 2021, 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 2021 was declared (2020: 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 2021 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 2021

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.