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natural beauty

Natural Beauty Announces 2006 Interim Results
Net Profit Surged 52.3% to HK\$49.4 million
~ Continuous Store Revamping Program & Enhancement of
Operating Efficiency to Boost Product Sales & Profitability ~

- The PRC market, the Group's major revenue generator, recorded a strong year-on-year growth of 16.0% and 62.9% in its turnover and operating profit respectively
- Net profit of the Group surged 52.3% to HK\$49,388,000
- Gross profit margin of products maintained at high level of 84.4%
- Maintain high dividend payout ratio of 80.2%

(12 September 2006 – Hong Kong) – Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Group"; Stock Code: 157), the leading professional skin-care and spa services provider in China, is pleased to announce today its interim results for the six months ended 30 June 2006.

During the period under review, the Group posted a surge of 52.3% in net profit to HK\$49.4 million backed by an impressive increase of 62.9% in operating profit generated from the PRC market as well as effective cost controls. The Group's overall gross margin remained high at 78.7% during the period. For the six months ended 30 June 2006, the Group maintained a stable turnover of HK\$163.6 million, as compared with HK\$163.1 million for the same period last year. Despite the drop in sales in Taiwan due to economic recession and that the commencement of brand revamping exercise just started in the end of the first quarter in 2006, the robust sales growth of 16.2% in the PRC market to HK\$113.7 million offset the decrease in turnover from the Taiwan market.

The Group is principally engaged in the manufacture and sale of several types of products, namely skin care products, aromatherapeutic products, color make up and health supplements, under the NB and Bio-up brand names. Product sales continued to be the Group's key revenue contributor and amounted to HK\$153.0 million for the six months ended 30 June 2006, equivalent to 93.5% of the total turnover. Gross margin of products were maintained at high level and further increased by 0.1 percentage point to 84.4% for the first half of 2006.

In addition to income from services provided by self-owned spa, the Group's service income also included training income and management fee received from franchisees, and other service related income. For the six months ended 30 June 2006, the Group's service income decreased by 8.2% to HK\$8.4 million, because one of the spas in the PRC market was entrusted to a reputable operator and due to the closure of a spa in Hong Kong since the beginning of 2006. Nevertheless, management fee, which was introduced in the second quarter of 2006, increased from HK\$0.2 million to HK\$1.2 million, while training income increased by 342% to HK\$0.9 million, as a result of additional advertising of beauty courses.

In order to efficiently allocate financial and human resources, the Group continued to implement its strategy of entrusting the operation of its spas to reputable local operators, so as to secure stable and long-term income. For the six months ended 30 June 2006, the Group's entrustment income decreased by 8.3% to HK\$2.3 million, which was primarily due to the reclassification of two entrusted stores as self-owned stores as well as the closure of an entrusted spa for land redevelopment by the local government.

Regarding its distribution network, as at 30 June 2006, the Group has a total of 2,166 store outlets, of which 2,079 were spas and 87 were counters. For the six months ended 30 June 2006, the Group opened a total of 86 new stores and closed 41 less effective stores.

In addition to store revamping, which covers overall brand image and franchised store image, the Group also emphasized on product packaging. By developing a consistent image via re-designing all its product packages and simplified the package type of over 200 various forms for more than 700 types of products to 24 standard forms only, the Group is capable of reducing production cost and enhancing profitability. As of 30 June 2006, a total of 183 products have changed their product packages, further enhanced the Group's product sales margin by 3 percentage points to 87% in the PRC.

Strong research and development capability has always been one of the Group's competitive edges. During the period under review, the Group continued to enrich its product range and launched 17 new products, including the NB-1 Whitening series, NB-1 anti-allergy and NB-1 pore refining series.

Dr. Spring Su, Executive Director and Chief Marketing Officer of the Group remarked, "With an aim to achieve sustained growth, we have made various initiatives to further propel the Group's development. We will improve same store sales through rolling-out our store revamp program in the other stores (approximately 1,000 stores have revamped their store front so far) and product repackaging. Besides the 17 new products we launched in the first half of 2006, we will continue to launch other new products throughout the year. In addition to opening 200 franchisee stores (86 stores were opened in 1H 2006), we will also expand our distribution channels through hypermarkets, cosmetic drugstores and campus mailer to universities in China. We will further expand our service income base through expansion of our beauty training business, introduction of franchise fee for new franchisees and management fee. To cope with our future development, we will recruit new CEO, COO China and COO other markets by 2006."

Commenting on the Group's development prospects, Dr. Su concluded, "Looking ahead, we expect the PRC market will continue to experience remarkable growth and will remain as the Group's focus for business development in the near future. As we believe the Taiwan economy will start to recover in year 2007, the Group will continue to enhance the operating efficiency of the Taiwan operations and expect the store revamp exercise will start to realize in the years ahead. By leveraging on our effective store revamping program, well-focused entrustment strategy and extensive distribution network, Natural Beauty is committed to becoming the leading beauty and spa services and professional product provider in Greater China region, maximizing returns to our shareholders."

Financial Highlights

Income Statement Highlights

For the six months ended 30 June

(HK\$'000)	2006	2005	Change (%)
Turnover	163,625	163,060	+0.3
Gross Profit	128,765	128,370	+0.3
Net Profit for the Period	49,388	32,437	+52.3
EPS (HK cents) - basic	2.479	1.640	+51.2
Dividends per share (HK cents)	2.0	1.3	+53.8
- Interim dividend	- 1.4	- 0.9	
- Special dividend	- 0.6	- 0.4	
Dividend payout ratio	80.2%	79.3%	+0.9

About Natural Beauty Bio-Technology Limited

Natural Beauty is a leading professional skin-care, spa services and beauty products provider in Greater China. The Group principally offers tailor-made professional skin-care services and products through a distribution network of over 2,000 NB's SPAs and dedicated counters in Greater China. The Group is engaged in the research and development, manufacture and sale of skin care, aromatherapeutic and professional skin-care products, marketed under the brandname "NB®". It also operates 15 license training schools in collaboration with the Ministry of Labour and local departments of labor to issue 10 kinds of beauty and spa licenses.

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