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:157)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

The Board of Directors of Natural Beauty Bio-Technology Limited ("Natural Beauty" or the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 along with the comparative figures for the corresponding period in 2004 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005
(With comparatives for the six months ended 30 June 2004)
(Expressed in thousands of Hong Kong dollars (HK$'000))

		For the six months ended 30 June	
		2005	2004
		(unaudited)	(unaudited)
			(restated)
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**163,060**	150,817
Cost of sales		**(34,690)**	(26,796)
Gross profit		**128,370**	124,021
Other operating income		**21,064**	13,587
Distribution costs		**(55,016)**	(65,572)
Administrative expenses		**(33,540)**	(31,598)
Other operating expenses		**(11,204)**	(818)
Profit from operations	*4*	**49,674**	39,620
Share of loss of an associate		**(52)**	(349)
Profit before taxation		**49,622**	39,271
Income tax expense	*5*	**(17,185)**	(8,446)
Profit for the period		**32,437**	30,825

Attributable to:			
Equity holders of the Company		**32,791**	31,221
Minority interests		**(354)**	(396)
		32,437	30,825
Dividends	*6*	**26,000**	15,000
Earnings per share	*7*		
– Basic		**1.64 HK cents**	1.56 HK cents
– Diluted		**Not applicable**	Not applicable

CONDENSED CONSOLIDATED BALANCE SHEET

AS OF 30 JUNE 2005

(With comparatives as of 31 December 2004)

(Expressed in thousands of Hong Kong dollars (HK$'000))

	As at 30 June 2005 (unaudited) *HK$'000*	As at 31 December 2004 (audited) (restated) *HK$'000*
Non-current assets		
Investment properties	**161,947**	160,459
Property, plant and equipment	**195,591**	192,956
Intangible assets	**1,358**	2,137
Goodwill	**13,676**	16,801
Interest in an associate	**553**	605
Other long-term receivables	**15,348**	5,158
Investments in securities	**6,786**	6,786
Deferred taxation assets	**6,348**	4,729
	401,607	389,631
Current assets		
Inventories	**55,938**	55,726
Trade and other receivables	**99,242**	124,576
Investments in securities	**128,436**	94,378
Bank balances and cash	**212,386**	235,920
	496,002	510,600
Current liabilities		
Trade and other payables	**60,873**	55,514
Deferred income	**10,887**	9,172
Taxation payable	**10,916**	20,749
	82,676	85,435
Net current assets	**413,326**	425,165
Total assets less current liabilities	**814,933**	814,796
Non-current liabilities		
Retirement benefit obligations	**10,885**	10,165
	804,048	804,631
Capital and reserves		
Share capital	**200,000**	200,000
Reserves	**595,050**	594,969
Equity attributable to equity holders of the Company	**795,050**	794,969
Minority interests	**8,998**	9,662
Total equity	**804,048**	804,631

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2005

(With comparatives for the six months ended 30 June 2004 and as of 31 December 2004)

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

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Hong Kong Accounting Standard ("HKASs") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretations of the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim accounts were not audited but have been reviewed by the Audit Committee.

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments and investment properties, which are measured at fair values.

The accounting policies and basis of preparation adopted in these condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

(a) Presentation of minority interests has been changed with adoption of HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements". Minority interests now form part of the total equity as presented in the Group's consolidated balance sheet. In the Group's consolidated income statements, minority interests are now presented as an allocation of profit and loss.

(b) In previous periods, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life. The Group has applied the relevant transitional provision in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses after initial recognition. The carrying amount of negative goodwill previously recognised is derecognised and credited to retained profits. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. The carrying amount of goodwill of approximately HK$3,126,000 was considered to be impaired with a corresponding decrease in goodwill as at 30 June 2005.

(c) In the current period, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 which amounted to HK$16,741,000 has been transferred to the Group's retained earnings.

2. SEGMENT INFORMATION

(a) Geographical segment

The Group's operations are located in the People's Republic of China other than Hong Kong (the "PRC"), Taiwan and others.

An analysis of the Group's revenue and contribution to operating results and segmental assets and liabilities by geographic segments, irrespective of the origin of the goods, is presented below:

	For the six months ended 30 June 2005			
	PRC unaudited *HK$'000*	**Taiwan unaudited** *HK$'000*	**Others unaudited** *HK$'000*	**Total unaudited** *HK$'000*
Turnover	**98,081**	**61,802**	**3,177**	**163,060**
Other operating income	**16,290**	**4,342**	**432**	**21,064**
Total revenue	**114,371**	**66,144**	**3,609**	**184,124**
Segment results	**45,052**	**14,582**	**(4,575)**	**55,059**
Unallocated corporate expenses				**(5,385)**
Profit from operations				**49,674**
Share of loss of an associate				**(52)**
Profit before taxation				**49,622**
Income tax expense				**(17,185)**
Profit for the period				**32,437**

	For the six months ended 30 June 2004			
	PRC unaudited (restated) *HK$'000*	Taiwan unaudited (restated) *HK$'000*	Others unaudited (restated) *HK$'000*	Total unaudited (restated) *HK$'000*
Turnover	86,530	63,173	1,114	150,817
Other operating income	9,677	3,723	187	13,587
Total revenue	96,207	66,896	1,301	164,404
Segment results	29,127	14,388	(52)	43,463
Unallocated corporate expenses				(3,843)
Profit from operations				39,620
Share of loss of an associate				(349)
Profit before taxation				39,271
Income tax expense				(8,446)
Profit for the period				30,825

(b) Business segment

The group comprises the following main business segments:

– sale of cosmetic products and provision of beauty services

– leasing of investment properties

	For the six months ended 30 June 2005				For the six months ended 30 June 2004			
	Turnover *HK$'000*	**Other operating income** *HK$'000*	**Total** *HK$'000*	**Capital expenditure** *HK$'000*	Turnover *HK$'000*	Other operating income *HK$'000*	Total *HK$'000*	Capital expenditure *HK$'000*
Cosmetics products and beauty services	**163,060**	**16,465**	**179,525**	**18,887**	150,817	10,890	161,707	14,183
Investment properties	**–**	**4,599**	**4,599**	**–**	–	2,697	2,697	–
	163,060	**21,064**	**184,124**	**18,887**	150,817	13,587	164,404	14,183

	Segment Assets	
	As at 30 June 2005 *HK$'000*	As of 31 December 2004 *HK$'000*
Cosmetics products and beauty services	**735,662**	739,772
Investment properties	**161,947**	160,459
	897,609	900,231

3. TURNOVER

Turnover represents the net invoiced value of goods sold or services rendered after allowances for returns and discounts, net of consumption tax.

An analysis of turnover by major categories is as follows:

	For the six months ended 30 June	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Sales of goods	**151,447**	138,844
Service income	**9,109**	9,191
Entrustment fee income	**2,504**	2,782
	163,060	150,817

4. PROFIT FROM OPERATIONS

Profit from operations in the condensed consolidated income statement was determined after crediting and charging the following items:

	For the six months ended 30 June	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Crediting:		
Interest income on bank deposits	**1,580**	652
Realized gain on disposal of short-term investments	**671**	215
Charging:		
Net loss on disposals of property, plant and equipment	**4,014**	4,438
Staff costs, excluding directors' emoluments		
– Salaries and wages	**29,439**	20,704
– Pension costs		
– PRC	**1,912**	2,330
– Taiwan	**780**	927
– Hong Kong and other regions	**147**	19
Directors' emoluments (salaries and allowances)*	**481**	367
Depreciation of property, plant and equipment	**12,179**	12,238
Provision for write-down of inventory	**2,285**	–
Provision for doubtful debts	**1,414**	–
Operating lease expense on land and buildings	**4,169**	7,982
Research and development costs	**873**	504
Amortization of other long-term assets	**454**	3,214
Impairment loss on goodwill	**3,126**	–

* *Included in directors' remuneration were fees of HK$44,000 (2004: HK$20,000), paid to independent non-executive directors during the report period.*

5. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided, as the Group has no assessable profits in Hong Kong for the six months ended 30 June 2005 (2004: Nil).

Taxation in overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries/places in which the Group operates.

	For the six months ended 30 June	
	2005	2004
	(unaudited)	(unaudited)
		(restated)
	HK$'000	*HK$'000*
Group:		
Overseas taxation	**18,804**	8,321
Deferred taxation	**(1,619)**	125
Taxation for the period	**17,185**	8,446

6. **DIVIDENDS**

	For the six months ended 30 June	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
2004 Interim, paid, of 0.75 HK cents per ordinary share	**–**	15,000
2005 Interim, proposed, of 0.90 HK cents per ordinary share	**18,000**	–
2005 Special, proposed, of 0.40 HK cents per ordinary share	**8,000**	–
	26,000	15,000

The directors proposed an interim dividend of 0.9 HK cents per share and a special dividend of 0.4 HK cents per share. These proposed dividend are not reflected as dividend payable in the current period financial statements, but will be reflected as an appropriation of retained earnings for the period ended 30 June 2005.

7. **EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the Group's unaudited profit attributable to shareholders of approximately HK$32,791,000 for the six months ended 30 June 2005 (2004: HK$31,221,000) divided by weighted average number of approximately 2,000,000,000 ordinary shares (2004: 2,000,000,000) in issue during the period.

No diluted earnings per share is presented, as the Company has no dilutive potential shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover by	**1H2005**		1H2004		Changes	
geographical region	***HK$'000***	***%***	*HK$'000*	*%*	*HK$'000*	*%*
PRC	**98,081**	**60.2%**	86,530	57.4%	11,551	13.3%
Taiwan	**61,802**	**37.9%**	63,173	41.9%	(1,371)	-2.2%
Others	**3,177**	**1.9%**	1,114	0.7%	2,063	185.2%
Total	**163,060**	**100.0%**	150,817	100.0%	12,243	8.1%

Turnover increased by approximately 8.1% or HK$12.2 million to HK$163.1 million for the six months ended 30 June 2005, compared to HK$150.8 million for the same period last year.

Turnover from the PRC market increased by 13.3%, or 11.6 million to HK$98.1 million for the six months ended 30 June 2005, compared to HK$86.5 million for the same period in 2004. The growth was driven by increasing demand in the PRC market and was attributable to the dual track management over franchisees of both local subsidiaries and the headquarters' expert team. The brand revamping work started in the first quarter also led to increased selling price of products from March 2005, resulting a 13.3% year-on-year growth in turnover for the first six months of 2005 against the same period last year.

Taiwan reported a drop of 2.2% in turnover to HK$61.8 million for the first six months of 2005 compared to HK$63.2 million in the corresponding period in 2004, due to the increase in selling price in March 2005.

Other markets include Hong Kong and Malaysia. Hong Kong was under entrustment in past two years and is now under group's direct management. Malaysia has demonstrated a strong growth of over 180% in turnover in the first six months of 2005 compared to the corresponding period last year. Contribution from these markets were still immaterial to the Group and accounted for less than 2% of the total turnover.

Turnover by activities	**1H2005**		1H2004		Changes	
	HK$'000	***%***	*HK$'000*	*%*	*HK$'000*	*%*
Products	**151,447**	**92.9%**	138,844	92.1%	12,603	9.1%
Service Income	**9,109**	**5.6%**	9,191	6.1%	(82)	-0.9%
Entrustment	**2,504**	**1.5%**	2,782	1.8%	(278)	-10.0%
Total	**163,060**	**100.0%**	150,817	100.0%	12,243	8.1%

Products

The Group manufactures and sells three main types of products, namely skin care products, health supplements and aromatherapeutic products under the NB and Bio-up brand names. Sales of products are primarily made through spas and dedicated counters and are the Group's key revenue contributor, accounting for HK$151.4 million, or 92.9% for the six months ended 30 June 2005, compared to HK$138.9 million, or 92.1% for the corresponding period in 2004, representing a 9.1% increase. Gross margin of products remain stable at 84.3%.

The increase in products sales is mainly attributable to the revamp of brand image, increase in retail price, better management over franchisees, and effective marketing efforts.

Services

The Group provides skin treatments, beauty and spa services through its self-owned and operated spas. Service income is generated from 23 self-owned spas as the Group does not share any service income generated in the franchised spas with franchisees under the current franchise programme. Income from these services slightly dropped by less than 1%.

While it is necessary to establish self-owned stores in new markets as model spas, the Group considers it would be more profitable as a whole to allocate resources to stimulate product sales through franchisees instead of operating our own spas, due to the higher overhead costs incurred. The Group continues to entrust certain of our spas in explored markets to reputable operators.

Entrustment income

In order to allocate our financial and human resources more efficiently, the Group had 19 entrustment arrangements in the PRC as at 30 June 2005 (31 December 2004: 18), ranging from one to five years, where our self-owned spas were entrusted to reputable operators in the local areas. The operators will be responsible for all the profits and losses of the operations and the Group receives a fixed annual entrustment income. The Group sells products to the operators as one of our franchises.

The Group believes the entrustment arrangement will be a win-win situation for both the operators and the Group. Local operators can better serve the specific needs of the local customers, and hence generate more revenue through product sales and services. The Group, on the other hand, can secure recurrent revenue from annual entrustment income while keeping the distribution network, and at the same time, re-allocate our resources to explore new markets.

The entrustment income decreased by 10.0% to HK$2.5 million for the six months ended 30 June 2005 compared to HK$2.8 million for the same period in 2004 as the entrustment in Hong Kong was terminated effective from 1 January 2005.

Gross Margin

Gross margin of the Group improved from 77.0% for the full year in 2004 to 78.7% for the first six months this year. The improvement of gross margin was attributable to the increase of retail price of products by 5% in March 2005. Gross margin for the first six months on year-on-year comparison, decreased from 82.2% to 78.7%, as for the first half of 2004 there was over HK$20 million sales related to one of our flagship products, NB-1, launched in late 2003. More discounts were offered for all products in the second half of 2004 to boost sales, and resulted in 77.0% for the overall gross margin for the full year in 2004.

Other Operating Income

Other operating income mainly includes rental income, interest income and financial refunds. It increased by HK$7.5 million or 55% to HK$21.1 million for the six months ended 30 June 2005 from HK$13.6 million for the six months ended 30 June 2004. The increase was mainly attributable to financial refunds of HK$12.2 million (1H 2004: HK$6.9 million) related to the PRC subsidiaries recognized during the period. The financial refunds were granted by local finance bureaus and are subject to annual review. The subsidiaries have been receiving financial refunds for the past years since its first profitable year.

Distribution Cost

Distribution costs reduced by HK$10.6 million, or 16.1% from HK$65.6 million for six months ended 30 June 2004 to HK$55.0 million for the same period this year. The reduction is mainly achieved by centralizing our advertising budget and deployed a 4A advertising agent, to improve our advertising & marketing efficiency. Although we have reduced our advertising and promotional expenses by HK$16.3 million, or 41% from HK$39.8 million for six months ended 30 June 2004 to HK$23.5 million for the same period this year, our turnover, especially in PRC, has demonstrated a strong and persistent growth trend.

Administrative Expense

Administrative expense increased by HK$1.9 million, or 6.1% from HK$31.6 million for six months ended 30 June 2004 to HK$33.5 million for the same period this year. The increase was mainly due to additional salaries and bonuses paid in first half of 2005 compared to same period in 2004.

Other Operating Expense

Other operating expense increased by HK$10.4 million is mainly represented by HK$1.2 million of donation, HK$5.5 million of loss on disposal of fixed assets, HK$2.3 million for the provision of inventory obsolescence, and other miscellaneous expenses. No such expenses was incurred in the same period last year.

Taxation

Taxation expenses increased by HK$8.8 million, or 103.5% from HK$8.4 million for the six months ended 30 June 2004 compared to HK$17.2 million for the first six months in 2005. The increase was mainly driven by higher turnover and operating profits in the PRC.

Effective tax rate for the six-month period ended 30 June 2004 and 2005 were 21.5% and 34.6% respectively. The annual effective tax rate for the year ended 31 December 2004 was 36.7%. The relatively low level of effective tax rate for the six months ended 30 June 2004 was due to the fact that only HK$0.6 million of profits tax provision was made in Taiwan, as the directors believed that the tax incentive program granted by the Taiwan government would reduce most of the profits tax in 2004. The program involved various calculation including time apportionment, hence the benefits of the tax incentive program only started to crystallize in the first half of 2005, resulting a drop of effective tax rate by 2.1 percentage points for the period under review.

As a result, the profit for the period increased by 5.2% to HK$32.4 million for the six months ended 30 June 2005 compared to HK$30.8 million for the corresponding period last year.

Profit attributable to equity holders of the Company increased by 5.0% to HK$32.8 million for the six months ended 30 June 2005 compared to HK$31.2 million for the corresponding period last year.

Segment Performance

Operating profits	**1H2005**		1H2004		Changes	
by geographical region	***HK$'000***	**%**	*HK$'000*	%	*HK$'000*	%
PRC	**45,052**	**90.7%**	29,127	73.5%	15,925	54.7%
Taiwan	**14,582**	**29.4%**	14,173	35.8%	409	2.9%
Others	**(4,575)**	**-9.2%**	(52)	-0.1%	(4,523)	8698.1%
Unallocated	**(5,385)**	**-10.9%**	(3,628)	-9.2%	(1,757)	48.4%
Total	**49,674**	**100.0%**	39,620	100.0%	10,054	25.4%

PRC

Turnover of the Group's operations in the PRC increased by 13.3%, or 11.6 million to HK$98.1 million for the six months ended 30 June 2005, compared to HK$86.5 million for the same period in 2004. The improvement is driven by improved sales from the brand revamping work started in late 2004, and also benefited from the increased retail price of products from March 2005, resulting in a year-on-year growth of 13.3% in turnover for the first six months of 2005 against same period last year. Gross profit increased by HK$7.6 million to HK$77.1 million for the six months ended 30 June 2005.

Distribution expense, as a percentage of turnover, reduced from 34.9% in the first half of 2004 to 23.8% for the first six months in this year. The drop in distribution was mainly attributable to the reduction of advertising & promotion cost, as most of our advertising resources were allocated to a 4A advertising agent, which has a stronger media-buying power, to achieve the operating efficiency. This effort is proven successful as turnover in the PRC surged by 13.3% despite the reduction of advertising costs.

Administrative expense also reduced by HK$3.2 million as a result of entrusting some of the operations to reputable operators and reduction of headcount from centralizing logistics through our collaboration with China Post.

Operating profit, as a result, increased by 54.7%, or HK$15.9 million from HK$29.1 million for six months ended 30 June 2004 to HK$45.1 million this year.

Taiwan

The Group's operations in Taiwan reported a decrease of 2.2% in turnover to HK$61.8 million for the first six months of 2005 compared to HK$63.2 million in the corresponding period in 2004, due to the increase in selling price in March 2005.

Distribution expense, as a percentage of turnover, also reduced from 52.4% in the first half of 2004 to 45.0% for the first six months this year. Similar to the PRC market, the drop in distribution was mainly attributable to the reduction of advertising & promotion cost, as most of our advertising resources were allocated to a 4A advertising agent, which has a stronger media-buying power, to achieve the operating efficiency.

Administrative expense increased by HK$2.1 million for the first six months of 2005, compared to the same period in 2004. The main reason was the increase in salaries and miscellaneous expenses paid in the first half of this year compared to same period last year.

Despite the decrease in turnover, the overall operating profit, increased by HK$0.4 million, or 2.9% to HK$14.6 million for the first six months of 2005, compared to HK$14.2 million for the same period in 2004.

Others

Other markets include Hong Kong and Malaysia.

The spas in Hong Kong were under entrustment in the past two years and the entrustment arrangement was terminated effective from 1 January 2005. The spas are now under the group's direct management. We closed down one of the spas in Kowloon and re-opened a concept boutique spa in Central during the first half of 2005. Since the boutique spa was still in development stage, the spas in Hong Kong were operating at a loss. A provision of HK$2.3 million was also made for the closure of the spa.

The Group's operations in Malaysia demonstrated a strong growth of over 180% in turnover in the first six months of 2005 compared to corresponding period last year. It also recorded a HK$0.4 million profit for the first half of 2005. As of 30 June 2005, there were a total of 46 franchisees in Malaysia.

The operations in Hong Kong and Malaysia are still insignificant to the Group and accounted for less than 2% of the total turnover.

Business Review

Distribution Channel

The Group principally derives income through our unique distribution channels, namely spas and counters in department stores. There were a total of 2,099 store outlets as at 30 June 2005, of which 1,972 were spas and 127 were counters. All spas can provide hydrotherapy, facial, body care and skin care analysis to our customers and counters in department stores usually provide skin care analysis. The spas are mainly categorized by the size of the store. The average store sizes for Class A, B and C are 240, 120 and 60 square meters respectively.

Store Number by Type At 30 June 2005	**Class A**	**Class B**	**Class C**	**Counter**	**Total**
Taiwan	7	104	429	–	540
PRC	75	495	814	127	1,511
HK	2	–	–	–	2
Malaysia	–	–	46	–	46
Total	84	599	1,289	127	2,099

There were a total of 1,925 franchisee spas as of 30 June 2005, and 174 spas and counters were owned by the Group, of which 134 were self-owned and 40 of them were entrusted to reputable operators. We had an additional of 56 counters as at 30 June 2005 compared to 31 December 2004, of which most of the new counters were opened in cities outside Shanghai.

Store Number by Ownership At 30 June 2005	**Franchisee owned**	**Entrusted**	**Self owned**	**Total**
Taiwan	531	–	9	540
PRC	1,348	40	123	1,511
HK	–	–	2	2
Malaysia	46	–	–	46
Total	1,925	40	134	2,099

Average sales per store in PRC increased by HK$12,000, or 23% to HK$65,000 per store for the first six months ended 30 June 2005.

Average sales per store in Taiwan, despite recession and increased competition, achieved to increase by HK$16,000, representing a year-on-year increase of 16% to HK$116,000 for the first six months ended 30 June 2005.

Average sales per stores	**1H2005 Average store**	1H2004 Average store	**1H2005 Average sales per store** *HK$*	1H2004 Average sales per store *HK$*	Changes *HK$*	Changes %
PRC	1,516.5	1,641.0	65,000	53,000	12,000	22.6%
Taiwan	531.0	631.0	116,000	100,000	16,000	16.0%
Group average	**2,047.5**	**2,272.0**	**78,000**	**66,000**	**12,000**	**18.2%**

Liquidity and Financial Management

As at 30 June 2005, the Group's total shareholders' funds were approximately HK$795.1 million including share capital and reserves of approximately HK$200.0 million and HK$595.1 million respectively. The Group continued to maintain a strong financial position with cash and bank balances plus investment securities (which are mainly capital guaranteed bond funds) in aggregate of approximately HK$340.8 million with no external bank borrowing or any charge on assets. Net Cash inflow from operating activities was approximately HK$61.0 million for the six months ended 30 June 2005. Accordingly, the Group has adequate resources to fund its future operation.

In terms of gearing, as at 30 June 2005, the Group had a negative gearing level (defined as net debt divided by shareholders' funds) as the Group has a net cash balance at the period end date. Current ratio of the Group (defined as the current assets divided by the current liabilities) as at 30 June 2005 was approximately 6.0 times (as at 31 December 2004: approximately 4.9 times). As at 30 June 2005, the Group had no material contingent liabilities or outstanding contracted capital commitments.

Treasury Policies and Exposure to Fluctuations in Exchange Rates

The Group derives most of its revenue from the PRC and Taiwan as its operations are mainly concentrated in these two areas. The Group did not engage in highly leverage or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management and with no external bank borrowing during the current period. The Group does not have significant exposure to foreign exchange fluctuations. Periodic review of the Group's exposure to foreign exchange risk will be conducted and derivative financial instruments may be used to hedge against such risks when necessary.

Employment, Training and Recruitment

As at 30 June 2005, the Group had a total of 1,136 employees of which 926 were based in the PRC, 183 in Taiwan and 27 in Hong Kong and other region, total remuneration for the period ended 30 June 2005 was approximately HK$29.9 million. Remuneration package of the Group are maintained at a competitive level to attract, retain and motivate high performing staff and are reviewed on a periodical basis.

The Group always maintains good working relations with its employees and is committed to employee training and development. Professional training courses to the beauticians employed by the Group and its franchisees are held on a regular basis to promote and maintain the quality and consistency of the services provided.

CORPORATE GOVERNANCE 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 and the remuneration committee with defined terms of reference which are of no less exacting terms than those set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance") as set out in Appendix 14 to the Listing Rules. These committees are chaired by independent non-executive directors. The Board considers the determination of the appointment and removal of directors to be the Board's collective decision and accordingly, it does not intend to adopt the recommended best practice of the Code on Corporate Governance to set up a nomination committee.

Audit Committee

The audit committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The unaudited financial statements of the Company for the six months ended 30th June 2005 have been reviewed by the audit committee who 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.

Remuneration Committee

The remuneration committee comprises three independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the Code on Corporate Governance. The duties of the remuneration committee include reviewing and evaluating the remuneration packages of executive directors and senior management and making recommendations to the Board from time to time.

Compliance with the Code on Corporate Governance Practices

None of the Directors of the Company is aware of any information that would reasonably indicated that the Company is not, or was not any part of the accounting period covered by the 2005 interim financial statements, in compliance of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard as set out in the Model Code throughout the review period.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the period ended 30 June 2005, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

SHARE OPTION SCHEME

The Company has adopted share option scheme on 11 March 2002 (the "Scheme"). Details of the Scheme are set out in the published annual report of the Company for the year ended 31 December 2004. There were no outstanding options at the beginning and at the end of the period. No option were granted, exercised, cancelled or lapsed during the six months ended 30 June 2005.

INTERIM AND SPECIAL DIVIDEND

The Board has resolved to recommend the payment of an interim dividend of 0.9 HK cents per share (2004: interim dividend of 0.75 HK cents) and a special dividend of 0.4 HK cents per share (2004: Nil). The interim dividend and special dividend will be distributed on around 20 October 2005 to shareholders whose names appear on the register of members of the Company as at the close of business on 29 September 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 28 September 2005 to 29 September 2005, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the interim and special dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 27 September 2005.

By order of the Board
Dr. Tsai Yen Yu
Chairman

As of the date hereof, the Executive Directors of the Company are Dr. Tsai Yen Yu, Mr. Lee Ming Ta, Mr. Su Chien Cheng and Dr. Su Sh Hsyu. The Independent Non-executive Directors of the Company are Mr. Yeh Liang Fei, Mrs. Chen Shieh Shu Chen and Mr. Chen Ching.

Hong Kong, 12 September 2005

"Please also refer to the published version of this announcement in The Standard."