



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 ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

RESULTS

The directors of Natural Beauty Bio-Technology Limited (“Natural Beauty” or the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006, together with the comparative figures for 2005, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(With comparatives for the six months ended 30 June 2005)

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

		For the six months ended 30 June	
		2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Turnover	5	163,625	163,060
Cost of sales		(34,860)	(34,690)
Gross profit		128,765	128,370
Other operating income		27,421	21,064
Distribution costs		(45,527)	(55,016)
Administrative expenses		(33,947)	(33,540)
Other operating expenses		(3,729)	(11,204)
Share of loss of an associate		(190)	(52)
Profit before taxation	6	72,793	49,622
Income tax expense	7	(23,405)	(17,185)
Profit for the period		49,388	32,437
Attributable to:			
Equity holders of the Company		49,584	32,791
Minority interests		(196)	(354)
		49,388	32,437
Dividends	8	40,000	26,000
Earnings per share	9		
– Basic		2.48 HK cents	1.64 HK cents
– Diluted		Not applicable	Not applicable

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

(with comparatives at 31 December 2005)

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

		At 30 June 2006 (unaudited) HK\$'000	At 31 December 2005 (audited) HK\$'000
Non-current assets			
Investment properties		161,576	159,653
Property, plant and equipment		174,201	178,725
Prepaid lease payments		9,012	9,039
Intangible assets		606	927
Goodwill		13,994	13,898
Interest in an associate		355	545
Available-for-sale investments		6,786	6,786
Deferred taxation assets		7,162	4,716
		373,692	374,289
Current assets			
Inventories		63,047	56,477
Trade and other receivables	10	117,391	141,229
Prepaid lease payments		238	236
Held-for-trading investments		118,518	26,491
Bank balances and cash		259,956	338,748
		559,150	563,181
Current liabilities			
Trade and other payables	11	58,732	82,041
Deferred income		8,641	8,489
Taxation payable		16,966	15,753
		84,339	106,283
Net current assets		474,811	456,898
Total assets less current liabilities		848,503	831,187
Non-current liabilities			
Retirement benefit obligations		11,378	10,890
		837,125	820,297
Capital and reserves			
Share capital		200,000	200,000
Reserves		631,565	613,511
Equity attributable to equity holders of the Company		831,565	813,511
Minority interests		5,560	6,786
Total equity		837,125	820,297

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2006

(With comparatives for the six months ended 30 June 2005 and as of 31 December 2005)

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

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated accounts have been prepared on a basis consistent with the principal accounting policies adopted in the 2005 annual accounts with the addition of certain new standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRS”) issued and effective as at the time of preparing this information. These are:

HKAS 19 (amended 2005) “Actuarial Gains and Losses, Group Plans and Disclosures”

HKAS 39 (amended 2005) “Cashflow Hedge Accounting of Forecast Intragroup Transactions”

HKAS 39 (amended 2005) “The Fair value Options”

HKAS 39 and HKFRS 4 (amended 2005) “Financial Guarantee Contracts”

HKFRS-Int 4 (amended 2005) “Determining whether an Arrangement contains a Lease”

The adoption of such standards or interpretations does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the first half of 2006.

The consolidated accounts have been prepared in accordance with the HKAS 34 “Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”). This consolidated financial information should be read in conjunction with the 2005 annual financial statements.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions as appropriate in the preparation of the accounts. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include the productive life of property, plant and equipment and intangible assets, impairment of goodwill, allowances for trade receivable and inventories and the determination of income tax.

3. MANAGEMENT OF FINANCIAL RISK FACTORS

The Group’s activities are exposed to movements of foreign currencies, fair value interest rate risk, credit risk and liquidity risk. These risks are reviewed periodically to ensure their impact on the Group’s financial performance is minimised through the use of forwards, options or other appropriate derivative financial instruments. It is the Group’s policy to use the above derivative instruments solely for the purpose of financial risk management.

4. 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 2006			
	PRC	Taiwan	Others	Total
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Turnover	113,733	46,467	3,425	163,625
Other operating income	20,446	6,276	699	27,421
Total revenue	<u>134,179</u>	<u>52,743</u>	<u>4,124</u>	<u>191,046</u>
Segment results	<u>73,389</u>	<u>11,976</u>	<u>(2,710)</u>	<u>82,655</u>
Unallocated corporate expenses				(9,672)
Share of loss of an associate				(190)
Profit before taxation				72,793
Income tax expense				(23,405)
Profit for the period				<u>49,388</u>

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

(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 2006			For the six months ended 30 June 2005		
	Turnover	Other operating income	Capital expenditure	Turnover	Other operating income	Capital expenditure
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Cosmetics products and beauty services	163,625	-	3,848	163,060	-	18,887
Investment properties	-	2,964	-	-	4,599	-
Others	-	24,457	-	-	16,465	-
	<u>163,625</u>	<u>27,421</u>	<u>3,848</u>	<u>163,060</u>	<u>21,064</u>	<u>18,887</u>

	Segment Assets	
	At	At
	30 June	31 December
	2006	2005
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Cosmetics products and beauty services	714,911	726,200
Investment properties	161,576	159,653
	<u>876,487</u>	<u>885,853</u>

5. 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	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Sales of goods	152,967	151,447
Service income	8,363	9,109
Entrustment fee income	2,295	2,504
	<u>163,625</u>	<u>163,060</u>

6. PROFIT BEFORE TAXATION

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

	For the six months	
	ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Crediting:		
Interest income on bank deposits	1,653	1,580
Realized gain on disposal of short-term investments	1,224	671
	<u>2,877</u>	<u>2,251</u>
Charging:		
Net loss on disposals of property, plant and equipment	542	4,014
Staff costs, excluding directors' emoluments		
– Salaries and wages	27,356	29,439
– Pension costs		
– PRC	1,964	1,912
– Taiwan	1,032	780
– Hong Kong and other regions	62	147
Directors' emoluments (salaries and allowances)*	586	481
Depreciation of property, plant and equipment	9,731	12,179
Provision for write-down of inventory	682	2,285
Provision for doubtful debts	69	1,414
Operating lease expense on land and buildings	7,132	4,169
Research and development costs	1,411	873
Amortization of other long-term assets	329	454
Impairment loss on goodwill	–	3,126
	<u>62,124</u>	<u>62,124</u>

* Included in directors' remuneration were fees of HK\$44,000 (2005: HK\$44,000), paid to independent non-executive directors during the report period.

7. 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 2006 (2005: 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	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Group:		
Overseas taxation	25,851	18,804
Deferred taxation	(2,446)	(1,619)
Taxation for the period	<u>23,405</u>	<u>17,185</u>

8. DIVIDENDS

	For the six months ended 30 June	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
2005 Interim, paid, of 0.90 HK cents per ordinary share	–	18,000
2005 Special, paid, of 0.40 HK cents per ordinary share	–	8,000
2006 Interim, proposed, of 1.40 HK cents per ordinary share	28,000	–
2006 Special, proposed, of 0.60 HK cents per ordinary share	12,000	–
	<u>40,000</u>	<u>26,000</u>

The directors proposed an interim dividend of 1.40 HK cents per share and a special dividend of 0.60 HK cents per share. These proposed dividends have not been recognised as a liability at the balance sheet date.

9. 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\$49,584,000 for the six months ended 30 June 2006 (2005: HK\$32,791,000) divided by weighted average number of approximately 2,000,000,000 ordinary shares (2005: 2,000,000,000) in issue during the period.

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

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2006 (unaudited) HK\$'000	At 31 December 2005 (audited) HK\$'000
Trade receivables	61,233	77,891
Prepayments and deposits	11,315	14,760
Financial refunds receivable	16,804	19,206
Other receivables	28,039	29,372
Total trade and other receivables	<u>117,391</u>	<u>141,229</u>

The Group allows a credit period ranging from one to six months to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	At 30 June 2006 (unaudited) HK\$'000	At 31 December 2005 (audited) HK\$'000
Within 180 days	50,913	71,956
181 days to 365 days	7,814	5,022
1 to 2 years	2,139	307
Over 2 years	367	606
	<u>61,233</u>	<u>77,891</u>

The fair value of the Group's trade and other receivables at 30 June 2006 was approximate to the corresponding carrying amount.

11. TRADE AND OTHER PAYABLES

	At 30 June 2006 (unaudited) HK\$'000	At 31 December 2005 (audited) HK\$'000
Trade payables	14,216	16,593
Deposits from customers	17,525	16,088
Other tax payables	8,463	15,785
Other payables	18,528	33,575
	<u>58,732</u>	<u>82,041</u>
Total trade and other payables	<u>58,732</u>	<u>82,041</u>

The following is an aged analysis of trade payables at the balance sheet date:

	At 30 June 2006 (unaudited) HK\$'000	At 31 December 2005 (audited) HK\$'000
Within 180 days	13,961	15,949
181 days to 365 days	-	500
1 to 2 years	214	-
Over 2 years	41	144
	<u>14,216</u>	<u>16,593</u>

The fair value of the Group's trade and other payables at 30 June 2006 was approximate to the corresponding amount.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover by geographical region	1H2006		1H2005		Changes	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
PRC	113,733	69.5	98,081	60.2	15,652	16.0
Taiwan	46,467	28.4	61,802	37.9	(15,335)	-24.8
Others	3,425	2.1	3,177	1.9	248	7.8
Total	163,625	100.0	163,060	100.0	565	0.3
Average sales per stores	1H2006	1H2005	1H2006	1H2005	Changes	Changes
	Average store*	Average store*	Average sales per store HK\$	Average sales per store HK\$		
PRC	1,569.0	1,516.5	72,000	65,000	7,000	10.8
Taiwan	531.5	531.0	87,000	116,000	(29,000)	-25.0
Group total **	2,100.5	2,047.5	76,000	78,000	(2,000)	-2.6

* Average store number is calculated by (opening period total + closing period total)/2

** Group total does not include Hong Kong and Malaysia turnover and store count.

Turnover slightly increased by 0.3% to HK\$163.6 million for the six months ended 30 June 2006, compared to HK\$163.1 million for the same period last year. Despite the drop in sales in Taiwan due to economic recession and political instability, the robust sales growth in the PRC market offset the decrease in turnover from the Taiwan market. As a result, the Group's average sales per store slightly decreased by 2.6% from HK\$78,000 for the six months ended 30 June 2005 to HK\$76,000 for the same period in 2006. Nevertheless, the Group continued to achieve growth in its average sales per store over the past 2 years, with an average annual growth of 10.7% from 2003 to 2005.

In the PRC, the turnover surged by 16.0% or HK\$15.7 million to HK\$113.7 million. The increase in turnover generated from the PRC market was mainly due to an encouraging increase of HK\$16.2 million, representing a year-on-year growth of 17.6% in product sales for the first six months of 2006. Increase in product sales was resulted from effective brand and store image revamping program commenced in April 2005. At present, approximately 1,000 stores of the Group have completed or in the process of revamping in the PRC market. During the first half of 2006, average store sales of the PRC market recorded a further growth of 10.8%, from HK\$65,000 for the six months ended 30 June 2005 to HK\$72,000. Service income during the period posted a loss as most of the Group's spas that were originally operated by subsidiaries were being entrusted.

In Taiwan, turnover decreased by HK\$15.3 million, or 24.8%, to HK\$46.5 million for the first six months of 2006 compared to HK\$61.8 million in the corresponding period in 2005. The drop in turnover was mainly due to the contraction of Taiwan market under recession. In addition, the Group just started its store revamping program in Taiwan at the end of the first quarter and the effect has yet to be realized.

Other markets include Hong Kong and Malaysia. As at 30 June 2006, the Group has 1 store in Hong Kong and 45 stores in Malaysia. Contribution to the Group's operations from these regions remained insignificant, which only accounted for approximately 2% of the Group's total turnover.

BY ACTIVITIES	1H2006		1H2005		Variance	Variance
	HK\$'000		HK\$'000		HK\$'000	%
Products						
PRC	108,605		92,383		16,222	17.6
Taiwan	41,716		57,055		(15,339)	-26.9
Others	2,646		2,009		637	31.7
Total	152,967		151,447		1,520	1.0
Services						
PRC	2,833		3,194		(361)	-11.3
Taiwan	4,751		4,747		4	0.1
Others	779		1,168		(389)	-33.3
Total	8,363		9,109		(746)	-8.2
Entrustment						
PRC	2,295		2,504		(209)	-8.3
Taiwan	-		-		-	n/a
Others	-		-		-	n/a
Total	2,295		2,504		(209)	-8.3
Turnover by activities	1H2006		1H2005		Variance	Variance
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Products	152,967	93.5	151,447	92.9	1,520	1.0
Services	8,363	5.1	9,109	5.6	(746)	-8.2
Entrustment	2,295	1.4	2,504	1.5	(209)	-8.3
Total	163,625	100.0	163,060	100.0	565	0.3

Products

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. Sales of products represent the Group's key revenue contributor and are primarily made through spas and dedicated counters. For the six months ended 30 June 2006, product sales accounted for HK\$153.0 million, or 93.5%, of total turnover for the period, compared to HK\$151.4 million, or 92.9% for the corresponding period in 2005. Gross margin of products increased by 0.1%, from 84.3% for the same period in 2005 to 84.4% for the six months ended 30 June 2006.

The increase in products sales was mainly attributable to the HK\$16.2 million increase in product sales generated from the PRC market as a result of the successful brand revamping program, including the overall brand image, franchised store image and new product packaging of the Group. In the PRC, a total of 183 products were repackaged by the end of June 2006. This successfully increased the product sales margins to 87%, up 3 percentage points from 84% in the corresponding period of last year. However, the increase was counteracted by the decline in product sales of the Taiwan market. The decline was due to the recession of the Taiwan economy and that the commencement of store revamping program just started at the end of first quarter, whose benefit has yet to be realized. The Group will continue to increase its margins by further enhancing its package revamp exercise.

Other markets, including Hong Kong and Malaysia, only accounted for 1.7% of total product sales for the period under review.

Services

Service income includes income from self-owned spa with services provided, training income and management fee received from franchisees, and other service related income.

The Group provides skin treatments, beauty and spa services through its self-owned spas. Service income is mainly derived from our self-owned spas as the Group does not share any service income generated from the franchised spas which are operated by franchisees under the current franchise programme. During the period under review, service income decreased by 8.2% to HK\$8.4 million when compared with the first half of 2005, which was mainly attributable to the reduction of service income in the PRC and Hong Kong markets. As one of the spas in the PRC market was entrusted to a reputable operator for the first four months of the period under review, service revenue generated from the PRC decreased by HK\$0.4 million. Service revenue of the spa operations in Hong Kong reported a reduction of HK\$0.8 million due to the closure of a spa since 1 January 2006. On the other hand, service revenue of the Taiwan market remained stable at HK\$4.8 million for the first half of 2006.

While self-owned stores are necessary to be established as model spas in new markets, the Group considers it will be more profitable and cost-efficient as a whole to allocate resources to stimulate product sales.

Nevertheless, the service income generated from management fees increased from HK\$0.2 million to HK\$1.2 million for the first six months ended 30 June 2006 compared to same period last year, and training income increased by 342% to HK\$0.9 million during the period under review, as a result of the quarterly management fee received from franchisees, and additional advertising of beauty courses through CCTV-MTV music award sponsorship.

Entrustment

In order to allocate our financial and human resources more efficiently, the Group has entrustment arrangements in PRC ranging from one to five years, where our self-owned spas were entrusted to reputable operators in local areas. The operators will be responsible for all the profits and losses of the operations and the Group will receive a fixed annual entrustment income. In addition, the Group sells products to the operators as one of our franchisees.

The Group believes the entrustment arrangement will create 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 product sales and service revenue. The Group, on the other hand, can secure a steady annual entrustment income while maintaining an extensive distribution network and allocating its executives to explore new markets.

For the six months ended 30 June 2006, the Group's entrustment income decreased by 8.3%, from HK\$2.5 million for the same period in 2005 to HK\$2.3 million. The drop in entrustment income was caused by the reclassification of two entrusted stores as self-owned stores as well as the closure of an entrusted spa due to land redevelopment by the local government.

Other operating income

Other operating income includes rental income, interest income and financial refunds, which amounted to HK\$3.0 million, HK\$1.7 million and HK\$17.2 million respectively for the six months ended 30 June 2006. During the period under review, the Group recorded a growth of 30.2%, or HK\$6.4 million, in other operating income from HK\$21.1 million for the six months ended 30 June 2005 to HK\$27.4 million. The increase was mainly attributable to the increase in financial refund in PRC as a result of higher operating profits of the PRC subsidiaries.

Distribution and administrative costs

The Group's distribution costs as a percentage of turnover decreased from 33.7% for the six months ended 30 June 2005 to 28.3% for the corresponding period in 2006. The total costs decreased by HK\$9.5 million, from HK\$55.0 million for the six months ended 30 June 2005 compared to HK\$45.5 million for the same period in 2006. Despite of our increased advertising exposure in various media, the Group's advertising costs and promotional expenses reduced by HK\$5.9 million to HK\$21.7 million for the six months ended 30 June 2006. The saving of distribution costs was also contributed by the reduction of salary, commission and travel expenses, which amounted to HK\$0.5 million, HK\$1.6 million and HK\$0.7 million respectively.

On the other hand, administrative expenses as a percentage of turnover remained constant at 21% for the six months ended of both 2005 and 2006. The cost mainly covered salary, legal and professional fee, depreciation and rental charges. Total administrative expenses slightly increased by HK\$0.4 million to HK\$33.9 million for the six months ended 30 June 2006 as compared to HK\$33.5 million for the same period in 2005.

Other operating expenses

For the six months ended 30 June 2006, other operating expenses totaled HK\$3.7 million, which mainly represented the provision of obsolete inventory of HK\$1.5 million, loss on disposal of fixed assets of HK\$0.5 million and bank charges of HK\$0.7 million. The main reason for the fluctuation as compared to last corresponding period was due to a reduction in the loss of disposal of fixed assets, primarily resulting from the shop revamping exercises in PRC in the previous year.

Profit before taxation

The increase in gross profit, other operating income, coupled with the savings in distribution costs and other operating expenses contributed to the surge of 46.7% in profit before tax, from HK\$49.6 million for the six months ended 30 June 2005 to HK\$72.8 million for the same period in 2006.

Taxation

Taxation expenses posted an increase of 36.2%, from HK\$17.2 million for the six months ended 30 June 2005 to HK\$23.4 million for the six months ended 30 June 2006. The effective tax rate of the Group for period ended 30 June 2005 and 2006 were 34.6% and 32.2% respectively. The drop in effective tax rate was benefited from our Taiwan operation, where the Taiwanese Government offered tax reduction for Taiwan manufacturers who re-invest in Taiwan. Despite this, the Group's effective tax rate remained at a relatively high level as there were withholding taxes on dividends paid by our Taiwan subsidiaries when the dividends were paid outside Taiwan.

Net profit for the period

For the six months ended 30 June 2006, the Group's net income increased by 52.3% from HK\$32.4 million for the six months ended 30 June 2005 to HK\$49.4 million.

Liquidity and financial resources

Cash generated from operations for the six months ended 30 June 2006 was approximately HK\$72.1 million. As at 30 June 2006, the Group had bank balances and cash of approximately HK\$260.0 million (as at 31 December 2005: HK\$338.7 million) and trading securities (which are mainly quasi-money market funds) of approximately HK\$118.5 million (as at 31 December 2005: HK\$26.5 million) with no external bank borrowing.

In terms of gearing, as at 31 December 2005 and 30 June 2006, the Group's gearing ratio was zero (defined as net debt divided by shareholders' equity) as the Group has a net cash balance as at both year end dates. Current ratio of the Group (defined as current assets divided by current liabilities) as at 31 December 2005 and 30 June 2006 were 5.3 times and 6.6 times respectively. As at 30 June 2006, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash and short term securities in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and working capital requirements.

Charges on assets

Certain freehold investment properties of the Group with a carrying amount of HK\$157.2 million (as at 31 December 2005: HK\$155.3 million) are pledged to a bank. The banking facilities granted by the bank were terminated in 2002 but the charge has not been released to facilitate application of banking facilities in the future.

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of its revenue denominated in Renminbi and New Taiwan Dollar from the PRC and Taiwan as its operations are mainly concentrated in these two geographical areas. As at 30 June 2006, approximately 83.6% (as at 31 December 2005: 68.1%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 8.8% (as at 31 December 2005: 21.4%) was denominated in New Taiwan Dollar and the remaining 7.6% (as at 31 December 2005: 10.5%) was denominated in United States Dollars, Hong Kong Dollars and Malaysia Ringgits. The Group continued to adopt a prudent approach in respect of foreign exchange exposure management. Review of the Group's exposure to foreign exchange risk are conducted periodically and derivative financial instruments may be used to hedge against such risks when necessary.

BUSINESS REVIEW

BY GEOGRAPHIC REGION

	1H2006 HK\$'000	1H2005 HK\$'000	Variance HK\$'000	Variance %
PRC				
Turnover-Product sales	108,605	92,383	16,222	17.6
Turnover-Service	2,833	3,194	(361)	-11.3
Turnover – Entrustment	2,295	2,504	(209)	-8.3
PRC Total	113,733	98,081	15,652	16.0
Taiwan				
Turnover – Product sales	41,716	57,055	(15,339)	-26.9
Turnover-Service	4,751	4,747	4	0.1
Turnover – Entrustment	–	–	–	n/a
Taiwan Total	46,467	61,802	(15,335)	-24.8
Others				
Turnover-Product sales	2,646	2,009	637	31.7
Turnover – Service	779	1,168	(389)	-33.3
Turnover – Entrustment	–	–	–	n/a
Others Total	3,425	3,177	248	7.8

PRC Market

The Group has implemented its brand revamping exercise since 2005. During the period under review, the benefits started to reflect on the growth of product sales. The Group's product sales in the PRC increased 17.6% to HK\$108.6 million. Gross margin of product sales also recorded growth, from 84.0% to 87.0% for the six months ended 30 June 2006, representing a year-on-year growth of 3.0 percentage points.

The Group's entrustment strategy continued to pay off. The Group entrusted its spas to reputable operators in established areas to enhance cost-efficiency. Although the Group only received entrustment fees and product revenue from the operators, the entrustment successfully minimized the loss occurred in the past. Therefore, despite the decreases in service revenue and entrustment income of HK\$0.4 million and HK\$0.2 million respectively, the Group's overall gross profit in the PRC increased by HK\$17.1 million and the overall gross margin significantly increased from 78.9% to 83.1% for the six months ended 30 June 2006, representing a year-on-year growth of 4.2 percentage points.

With the increase in other operating income, mainly tax refund, the operating profit for the first six months of 2006 surged by 62.9%, to HK\$73.4 million as compared to the same period in 2005.

Taiwan Market

Taiwan experienced economic recession during the period under review. In addition, the Group commenced its brand revamping program in the Taiwan market at the end of the first quarter of 2006. As a result, product sales in Taiwan dropped by 26.9% to HK\$41.7 million for the six months ended 30 June 2006. Gross margin of product sales also dropped from 86.2% to 81.6% for the six months ended 30 June 2006, representing a decrease of 4.6 percentage points.

Despite the Group's service revenue generated from the Taiwan market remained stable as compared to the same period of last year. The group managed to turn services from loss in first half of 2005 to a small gross profit of HK\$0.3 million for six months ended 30 June 2006.

Due to the weak economic condition in Taiwan, resulting to lower product sales and margins, operating profits reduced by 17.9% to HK\$12.0 million during the period under review.

Distribution channels

Store Number by Ownership As at 30 June 2006	Franchisee		Self		Self		Total Counter	Grand Total
	owned Spa	Entrusted Spa	owned Spa	Total Spa	owned Counter	Total Counter		
Taiwan	518	-	9	527	-	-	-	527
PRC	1,476	25	5	1,506	20	67	87	1,593
Others	45	-	1	46	-	-	-	46
Total	2,039	25	15	2,079	20	67	87	2,166

Store Number by Ownership

As at 30 June 2006	Franchisee owned	Entrusted	Self owned	Total
Taiwan	518	-	9	527
PRC	1,476	45	72	1,593
Others	45	-	1	46
Total	2,039	45	82	2,166

The Group principally derives income through its unique distribution channels, namely spas and counters in department stores. As at 30 June 2006, there were a total of 2,166 store outlets, of which 2,079 were spas and 87 were counters. All spas provide a variety of services, including hydrotherapy, facial, body care and skin care analysis to its customers, whereas counters in department stores usually provide skin care analysis.

There were a total of 2,039 franchised spas as of 30 June 2006. There were also 15 spas and 67 counters directly operated by the Group. Furthermore, there were a total of 25 spas and 20 counters being entrusted to reputable operators.

A total of 86 new stores were opened during the period under review, while 41 stores, mainly less effective stores, were closed.

Franchised spas are owned by franchisees and they are responsible for the capital investment of their spas, which are obliged to use “Natural Beauty” or “NB” brand of products.

Self-owned spas are primarily set up to act as a model spa for potential franchisees. While there are needs to establish self-owned spas as model spas in new markets, the Group considers it will be more profitable and cost-efficient as a whole to allocate resources to stimulate product sales instead of expanding the operation of self-owned spas as higher overhead costs were incurred when compared to franchised spas. The Group, therefore, has entrusted and will continue to entrust certain of its self-owned spas in explored markets to reputable operators.

Entrusted spas are owned by the Group and operated by reputable operators. Prior to the entrustment, the spas were previously operated by the Group. In order to allocate financial and human resources more efficiently, the Group has entrustment arrangements in PRC ranging from one to five years, where its self-owned spas were entrusted to reputable operators in local areas. The operators will be responsible for all the profits and losses of the operations and the Group will receive a fixed annual entrustment income from the operators. The Group will also sell its products to the operators as one of the franchises.

The Group believes the entrustment arrangement will create a win-win situation for both the operators and the Group. Local operators can better serve the specific needs of local customers, and hence generate more sales and service revenues. The Group, on the other hand, can secure a steady annual entrustment income while maintaining its distribution network and re-allocating its resources to explore new markets. For the six months ended 30 June 2006, the Group’s overall gross margin remained stable at 78.7%, which was in line with that of the same period in 2005.

Store-Front Revamping of Existing Franchised Spas

As the Group has a vast network of franchised spas, it is impractical to request all the franchisees to renovate their spas according to the Group’s new franchised store image. Therefore, the Group has an interim arrangement, for the existing franchisees to revamp their spa, with minimum efforts and financial resources. As of 30 June 2006, a total of nearly 1000 franchise spas have completed or in the process of their store revamping exercise.

Product Repackaging

The Group's brand revamping exercise is also extended to product packaging. In order to have a consistent image, the Group re-designed 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. A total of 183 products have changed their product packages by 30 June 2006. This led to a higher profit margin of 87% as compared to 84% for the same period of the previous year, up by 3 percentage points in the PRC. We will continue to repackage our products throughout the year.

Research & Development

In order to maintain its competitive edge, the Group emphasized on research and development, so as to improve the quality of its existing products and develop new products. The Group has been collaborating with overseas cosmetic companies on technological development, imported biotechnology materials from Europe, Japan and Australia, which were applied in over 700 NB's products. The Group's research and development team comprises 13 members and a number of overseas consultants with experience and expertise in cosmetics, medical, pharmacy and bio-chemistry. NB's products are constantly enhanced and modified with new ingredients developed by its research and development team. The Group believes that the collaboration of different expertise and experience within the team, together with Dr. Tsai's over 30 years of industry experience and knowledge, can help developing high quality beauty and skin care products. NB principally uses natural ingredients in producing its products and adopts special formulation to suit the specific needs of the delicate skin type for oriental women. NB's products are attentive to the natural metabolism of skin with long-lasting effects.

In developing new products, the research and development team will take into account the feedback and advice from senior management of the Group. Prototype of new products will be distributed to over 1,000 of selected senior beauty professionals. In accordance with the outcome of the tests, refinements or modifications to the products may be made prior to its full commercial launch to ensure the quality, effectiveness and safety standard of NB's products. When a product requires registration with relevant authorities, it will be done prior to market launch. All NB products are assured to meet all relevant regulations.

In addition to NB's dedicated research and development team, NB has collaborated with a leading researcher, Dr. Chen Ji Dai, in the field of human genome and stem cell technology, in the development of anti-aging NB-1 product family and other products for spot removing, whitening, anti-allergy and slimming. Combining Dr. Tsai's over 30 years of experience in the beauty and skin care industry with the strong background of its research and development staff, NB has the competitive advantages in the research and development of beauty and skin care products.

The total research & development cost of the Group for the six months ended 30 June 2006 amounted to HK\$1.4 million (1H 2005: HK\$0.9 million).

New Products

After the successful launch of our flagship product, anti-aging NB-1 series in late 2003, we further launched NB-1 Whitening series, NB-1 anti-allergy and NB-1 pore refining series. For the six months ended 30 June 2006, over 65,000 sets/bottles of NB-1 family products were sold, with a turnover of HK\$55.3 million when compared with HK\$19.8 million for the same period last year.

In 2006, the Group continued to enrich its product range and launched 17 new products during the period under review.

New Promotional Channels

The group also planned to expand its promotional channels through campus mailer to 50 universities in Beijing, Guangzhou and Shanghai, which consist of approximately 400,000 female population. The mailers will be delivered to each room in student dormitories. Posters associated with the mailers will also be used in each cafeteria and classroom across all campuses. In addition, we will hold campus beauty classes and celebrity events to promote the mailers. This is expected to be an efficient promotional channel for targeting potential NB customers and generating sales revenue alike.

Information Technology

The Group started to implement ERP system by Oracle to link up the key decision making process throughout the Group's value chain. The ERP system is expected to enhance the Group's information flow, enabling the generation of more accurate and timely production planning and sales forecast.

The implementation of the ERP system in Taiwan was completed in 2004 and that in the PRC is expected to complete by end of 2006.

Human Resources

As at 30 June 2006, the Group had a total of 860 employees, of which 667 were based in PRC, 178 in Taiwan and 15 in other areas. Total remuneration (excluding directors' emoluments) for the six months ended 30 June 2006 was approximately HK\$30.4 million (1H 2005: HK\$32.3 million), including retirement benefits cost of HK\$1 million (1H 2005: HK\$0.8 million). Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed periodically.

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

In addition, the Group adopted a share option scheme on 11 March 2002, for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. The Directors may, at their discretion, invite any employee or director of the Group and any qualified person as set out in the scheme, to subscribe for shares. Up to the date of this document, no share option had been granted under the share option scheme.

The Directors also strengthened its professional management team by recruiting the group's chief executive officer, chief operational officer, sales general manager, head of supply chain as well as head of finance for the PRC market from multinational companies. They are expected to be all on board before the end of the year. The board believes that after two years of consolidation, the recruitment of more industry experts will be beneficial to further drive the Group's expansion for its long-term development in future.

Capital Expenditures

The Group's major capital expenditures were related to self-owned spas and machinery in our factories. There were HK\$3.8 million additions to fixed assets for the period ended 30 June 2006 (30 June 2005: HK\$18.9 million). The difference was due to a property purchased in Guangzhou last year at a consideration of HK\$12.9 to expand the regional Training Centre for the southern China region.

Franchisees are responsible for the capital expenditures of the spa operation.

Since our factories in PRC and Taiwan still have spare capacities, current utilization rate was estimated to be around 70% during the period under review. The management does not anticipate the need for any new factory in the near future.

OUTLOOK

The robust growth in the PRC market is expected to continue and will remain the Group's focus for business development in the near future.

The recession in Taiwan is mainly related to the recent political scandal of the presidential family. The recovery of the Taiwan economy depends, to a large extent, on the outcome of the condition. The Group expects the Taiwan economy will start to recover in year 2007.

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 30 June 2006 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 indicate that the Company is not, or was not any part of the accounting period covered by the 2006 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 2006, 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 2005. 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 2006.

INTERIM AND SPECIAL DIVIDEND

The Board has resolved to recommend the payment of an interim dividend of 1.40 HK cents per share (2005: interim dividend of 0.90 HK cents) and a special dividend of 0.60 HK cents per share (2005: 0.40 HK cents). The interim dividend and special dividend will be distributed on around 27 October 2006 to shareholders whose names appear on the register of members of the Company as at the close of business on 28 September 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 September 2006 to 28 September 2006, 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 26 September 2006.

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 2006

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