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 2007

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 2007, together with the comparative figures for 2006, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007
(With comparatives for the six months ended 30 June 2006)
(Expressed in thousands of Hong Kong dollars (HK$'000))

		For the six months ended 30 June	
		2007	2006
		(unaudited)	(unaudited)
	Note	***HK$'000***	*HK$'000*
Turnover	*4*	**193,188**	163,625
Cost of sales		**(31,298)**	(34,860)
Gross profit		**161,890**	128,765
Other operating income		**29,004**	27,421
Distribution costs		**(53,409)**	(45,527)
Administrative expenses		**(38,486)**	(33,947)
Other operating expenses		**(3,217)**	(3,729)
Share of loss of an associate		**(348)**	(190)
Share of profit of a jointly controlled entity		**19**	–
Profit before taxation	*5*	**95,453**	72,793
Income tax expense	*6*	**(21,157)**	(23,405)
Profit for the period		**74,296**	49,388
Attributable to:			
Equity holders of the Company		**74,329**	49,584
Minority interests		**(33)**	(196)
		74,296	49,388
Dividends	*7*	**100,000**	40,000
Earnings per share	*8*		
– Basic		**3.72 HK cents**	2.48 HK cents
– Diluted		**Not applicable**	Not applicable

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007
(with comparatives at 31 December 2006)
(Expressed in thousands of Hong Kong dollars (HK$'000))

	Notes	At 30 June 2007 (unaudited) HK$'000	At 31 December 2006 (audited) HK$'000
Non-current assets			
Investment properties		**4,456**	162,228
Property, plant and equipment		**175,936**	173,479
Prepaid lease payments		**9,272**	9,119
Goodwill		**23,782**	23,207
Interest in an associate		**24**	373
Interest in a jointly controlled entity		**372**	353
Available-for-sale investments		**6,786**	6,786
Deferred taxation assets		**5,518**	9,437
		226,146	384,982
Current assets			
Inventories		**67,584**	63,573
Trade and other receivables	*9*	**125,809**	164,905
Prepaid lease payments		**252**	244
Held-for-trading investments		**–**	27,713
Bank balances and cash		**501,378**	356,243
		695,023	612,678
Assets held for sale	*10*	**157,274**	–
		852,297	612,678
Current liabilities			
Trade and other payables	*11*	**77,276**	70,198
Dividend payable		**85,001**	–
Deferred income		**8,811**	9,336
Taxation payable		**7,695**	27,638
		178,783	107,172
Net current assets		**673,514**	505,506
Total assets less current liabilities		**899,660**	890,488
Non-current liability			
Retirement benefit obligations		**11,560**	11,317
		888,100	879,171
Capital and reserves			
Share capital		**200,000**	200,000
Reserves		**682,665**	678,739
Equity attributable to equity holders of the Company		**882,665**	878,739
Minority interests		**5,435**	432
Total equity		**888,100**	879,171

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE 2007

(With comparatives for the six months ended 30 June 2006 and as of 31 December 2006)

(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 2006 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 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HKFRS 7	Financial instruments: Disclosures

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 2007.

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 2006 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, impairment of goodwill, allowances for trade receivable and inventories and the determination of income tax.

3. 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 2007			
	PRC (unaudited)	**Taiwan (unaudited)**	**Others (unaudited)**	**Total (unaudited)**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Turnover	**139,282**	**50,565**	**3,341**	**193,188**
Other operating income	**23,196**	**4,886**	**922**	**29,004**
Total revenue	**162,478**	**55,451**	**4,263**	**222,192**
Segment results	**84,135**	**17,748**	**(1,830)**	**100,053**
Unallocated corporate expenses				**(6,886)**
Unallocated income				**2,615**
Share of loss of an associate				**(348)**
Share of profit of a jointly controlled entity				**19**
Profit before taxation				**95,453**
Income tax expense				**(21,157)**
Profit for the period				**74,296**

	For the six months ended 30 June 2006			
	PRC (unaudited)	Taiwan (unaudited)	Others (unaudited)	Total (unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	113,733	46,467	3,425	163,625
Other operating income	20,446	6,276	699	27,421
Total revenue	134,179	52,743	4,124	191,046
Segment results	73,389	11,976	(2,710)	82,655
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				49,388

(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 2007			For the six months ended 30 June 2006		
	Turnover (unaudited)	**Other operating income (unaudited)**	**Capital expenditure (unaudited)**	Turnover (unaudited)	Other operating income (unaudited)	Capital expenditure (unaudited)
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Cosmetics products and beauty services	**193,188**	**–**	**8,351**	163,625	–	3,848
Investment properties	**–**	**3,362**	**–**	–	2,964	–
Others	**–**	**25,642**	**–**	–	24,457	–
	193,188	**29,004**	**8,351**	163,625	27,421	3,848

	Segment Assets	
	At 30 June 2007 (unaudited)	At 31 December 2006 (audited)
	HK$'000	*HK$'000*
Cosmetics products and beauty services	**273,098**	426,906
Investment properties	**161,730**	162,228
	434,828	589,134

4. 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	
	2007 (unaudited)	2006 (unaudited)
	HK$'000	*HK$'000*
Sales of goods	**181,958**	152,967
Service income	**9,099**	8,363
Entrustment fee income	**2,131**	2,295
	193,188	163,625

5. 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	
	2007	2006
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Crediting:		
Interest income on bank deposits	**2,615**	1,653
Realized gain on disposal of short-term investments	**1,406**	1,224
Charging:		
Net loss on disposals of property, plant and equipment	**87**	542
Staff costs, excluding directors' emoluments		
– Salaries and wages	**34,147**	27,356
– Pension costs		
– PRC	**2,606**	1,964
– Taiwan	**1,187**	1,032
– Hong Kong and other regions	**111**	62
Directors' emoluments (salaries and allowances)*	**2,089**	586
Depreciation of property, plant and equipment	**9,171**	9,731
Provision for write-down of inventory	**1,852**	682
Provision for doubtful debts	**1,824**	69
Operating lease expense on land and buildings	**8,385**	7,132
Research and development costs	**892**	1,411
Amortization of other long-term assets	**–**	329

* *Included in directors' remuneration were fees of HK$1,494,000 (2006: HK$44,000), paid to directors during the report period.*

6. 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 2007 (2006: 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	
	2007	2006
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Group:		
Overseas taxation	**17,238**	25,851
Deferred taxation	**3,919**	(2,446)
Taxation for the period	**21,157**	23,405

7. DIVIDENDS

	For the six months ended 30 June	
	2007	2006
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
2006 Interim, paid, of 1.40 HK cents per ordinary share	**–**	28,000
2006 Interim Special, paid, of 0.60 HK cents per ordinary share	**–**	12,000
2007 Interim, proposed, of 3.0 HK cents per ordinary share	**60,000**	–
2007 Interim Special, proposed, of 2.0 HK cents per ordinary share	**40,000**	–
	100,000	40,000

The directors proposed an interim dividend of 3.0 HK cents per share and a interim special dividend of 2.0 HK cents per share. These proposed dividends have not been recognised as a liability at the balance sheet date.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's unaudited profit attributable to equity holders of approximately HK$74,329,000 for the six months ended 30 June 2007 (2006: HK$49,584,000) divided by weighted average number of approximately 2,000,000,000 ordinary shares (2006: 2,000,000,000) in issue during the period.

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

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2007	At 31 December 2006
	(unaudited)	(audited)
	HK$'000	*HK$'000*
Trade receivables	**67,765**	85,990
Prepayments and deposits	**11,487**	20,446
Financial refunds receivable	**19,944**	26,858
Other receivables	**26,613**	31,611
Total trade and other receivables	**125,809**	164,905

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 2007	At 31 December 2006
	(unaudited)	(audited)
	HK$'000	*HK$'000*
Within 180 days	**50,410**	73,836
181 days to 365 days	**10,446**	8,937
1 to 2 years	**5,716**	2,944
Over 2 years	**1,193**	273
	67,765	85,990

The fair value of the Group's trade and other receivables at 30 June 2007 was approximate to the corresponding carrying amount.

10. ASSETS HELD FOR SALE

On 10 April 2007, the directors resolved to dispose of one of the Group's investment properties in Taiwan. Negotiation with a buyer was in final stage and the investment property was expected to be sold within twelve months, has been classified as assets held for sale and is presented as current assets. The investment properties are included in the Group's leasing of investment properties for segment reporting purposes (see note 3).

The net proceeds of disposal are expected to exceed the net carrying amount of the relevant assets, and accordingly, no impairment loss has been recognized on the classification of this investment property as assets held for sale.

11. TRADE AND OTHER PAYABLES

	At 30 June 2007 (unaudited) ***HK$'000***	At 31 December 2006 (audited) *HK$'000*
Trade payables	**13,013**	16,607
Deposits from customers	**33,652**	20,896
Other tax payables	**3,423**	8,618
Other payables	**27,188**	24,077
Total trade and other payables	**77,276**	70,198

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

	At 30 June 2007 (unaudited) ***HK$'000***	At 31 December 2006 (audited) *HK$'000*
Within 180 days	**12,136**	15,347
181 days to 365 days	**17**	16
1 to 2 years	**656**	607
Over 2 years	**204**	637
	13,013	16,607

The fair value of the Group's trade and other payables at 30 June 2007 was approximate to the corresponding amount.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover by geographical region	**1H2007**		1H2006		**Changes**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PRC	**139,282**	**72.1%**	113,733	69.5%	25,549	22.5%
Taiwan	**50,565**	**26.2%**	46,467	28.4%	4,098	8.8%
Others	**3,341**	**1.7%**	3,425	2.1%	(84)	-2.5%
Total	**193,188**	**100.0%**	163,625	100.0%	29,563	18.1%

Average sales per store	**1H2007 Average store***	1H2006 Average store*	**1H2007 Average sales per store**	1H2006 Average sales per store	**Changes**	**Changes**
			HK$	*HK$*	*HK$*	*%*
PRC	**1,708.5**	1,569.0	**82,000**	72,000	10,000	13.9%
Taiwan***	**493.5**	531.5	**92,000**	87,000	5,000	5.7%
Group total**	**2,202.0**	2,100.5	**84,000**	76,000	8,000	10.5%

* 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.

*** Taiwan sales figure excluded retail sales of "Fonperi" brand products which are sold by different distribution channel.

Turnover increased by 18.1% to HK$193.2 million for the six months ended 30 June 2007, compared to HK$163.6 million for the same period last year. PRC market continues to demonstrate robust growth at 22.5% due to the strong Chinese economy. Taiwan market was still weak but we managed to turn around the decline and recorded a 8.8% year on year growth in turnover. The growth was attributable to the new retail brand "Fonperi" we launched in April this year. Other markets, including Hong Kong and Malaysia, remained small and accounted for less than 2% of the total turnover.

In the PRC, the turnover surged by 22.5% or HK$25.5 million to HK$139.3 million. The increase in turnover generated from the PRC market was mainly due to an encouraging increase of HK$24.4 million in product sales, representing a year-on-year growth of 22.5% for the first six months of 2007. Increase in product sales was resulted from effective brand and store image revamping program commenced in April 2005. During the first half of 2007, average store sales of the PRC market recorded a further growth of 13.9%, from HK$72,000 for the six months ended 30 June 2006 to HK$82,000 for the same period this year. Service income during the period also recorded a 46.4% growth year on year, as a result of renovated self-owned spas and a beauty mix store in Shanghai.

In Taiwan, turnover increased by HK$4.1 million, or 8.8%, to HK$50.6 million for the first six months of 2007 compared to HK$46.5 million in the corresponding period in 2006. The improvement in turnover was resulted from the introduction of our new retail brand "Fonperi" in the Taiwan market. The initial response from the market of this new retail brand is encouraging. There was HK$5.4 million product sales directly attributable to the Fonperi line. Excluding the retail products which were sold under different distribution channel, the average store sales in Taiwan registered a 5.7% year on year growth for the first six months of 2007 on our existing spa channel.

Other markets include Hong Kong and Malaysia. As at 30 June 2007, the Group has 1 store in Hong Kong and 51 stores in Malaysia. Contribution to the Group's operations from these regions remained insignificant, which only accounted for less than 2% of the Group's total turnover.

By Activities	**1H2007** ***HK$'000***	1H2006 *HK$'000*	**Variance** *HK$'000*	**Variance** %
Products				
PRC	**133,004**	108,605	24,399	22.5%
Taiwan	**46,226**	41,716	4,510	10.8%
Others	**2,728**	2,646	82	3.1%
Total	**181,958**	152,967	28,991	19.0%
Services				
PRC	**4,147**	2,833	1,314	46.4%
Taiwan	**4,339**	4,751	(412)	-8.7%
Others	**613**	779	(166)	-21.3%
Total	**9,099**	8,363	736	8.8%
Entrustment				
PRC	**2,131**	2,295	(164)	-7.1%
Taiwan	**–**	–	–	n/a
Others	**–**	–	–	n/a
Total	**2,131**	2,295	(164)	-7.1%
GROUP TOTAL				
PRC	**139,282**	113,733	25,549	22.5%
Taiwan	**50,565**	46,467	4,098	8.8%
Others	**3,341**	3,425	(84)	-2.5%
Total	**193,188**	163,625	29,563	18.1%

Turnover by activities	1H2007 *HK$'000*	*%*	1H2006 *HK$'000*	*%*	Changes *HK$'000*	*%*
Products	**181,958**	**94.2%**	152,967	93.5%	28,991	19.0%
Services	**9,099**	**4.7%**	8,363	5.1%	736	8.8%
Entrustment	**2,131**	**1.1%**	2,295	1.4%	(164)	-7.1%
Total	**193,188**	**100.0%**	163,625	100.0%	29,563	18.1%

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 "Natural Beauty" brand name. 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 2007, product sales accounted for HK$182.0 million, or 94.2%, of total turnover for the period, compared to HK$153.0 million, or 93.5% for the corresponding period in 2006. Gross margin of products increased by 4.3 percentage points to 88.7% for the six months ended 30 June 2007, from 84.4% for the same period in 2006.

The increase in products sales was mainly attributable to the HK$24.4 million increase in product sales generated from the PRC market as a result of the robust growth of the Chinese economy, a successful brand revamping program, including the overall brand image, franchised store image and new product packaging of the Group initialed in 2005. In the PRC, a total of 204 products were repackaged by the end of June 2007. This successfully increased the product sales margins to 88.2%, up 1.2 percentage points from 87.0% in the corresponding period of last year. Taiwan market also recovered from the declining trend in sales for the past two years while the Taiwan economy was in recession. Taiwan market recorded HK$46.2 million in sales, with an encouraging growth of 10.8% from HK$41.7 million in the same period last year. There were also 110 products re-packaged in Taiwan market as of 30 June 2007.

Other markets, including Hong Kong and Malaysia, only accounted for 1.5% 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, amounting to HK$6.2 million, HK$0.6 million, HK$0.6 million and HK$1.7 million respectively.

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 increased by 8.8% to HK$9.1 million when compared with the first half of 2006, which was mainly attributable to the growth in income derived from self-own spas in PRC market.

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.

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 2007, the Group's entrustment income decreased by 7.1%, from HK$2.3 million for the same period in 2006 to HK$2.1 million. The drop in entrustment income was caused by the expiry of certain entrustment arrangements. Expired entrustment store will be converted into franchisee stores.

Other operating income

Other operating income includes rental income, interest income and financial refunds, which amounted to HK$3.4 million, HK$2.6 million and HK$19.7 million respectively for the six months ended 30 June 2007. During the period under review, the Group recorded a growth of 5.8%, or HK$1.6 million, to HK$29.0 million in other operating income from HK$27.4 million for the six months ended 30 June 2006. 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 cost

The Group's distribution costs as a percentage of turnover slightly decreased from 27.8% for the six months ended 30 June 2006 to 27.6% for the corresponding period in 2007. The total costs in dollar terms increased by HK$7.9 million, from HK$45.5 million for the six months ended 30 June 2006 compared to HK$53.4 million for the same period in 2007. We continue to increase our advertising exposure in various media, the Group's advertising costs and promotional expenses increased by HK$2.6 million to HK$24.3 million for the six months ended 30 June 2007. In percentage terms, it represents 12.6% of total turnover for the first six months of 2007 compared to 13.3% in the corresponding period in 2006. Other key expense items mainly include salary, commission, travel expenses and rental expense, which amounted to HK$8.1 million, HK$2.0 million, HK$2.8 million and HK$5.7 million respectively.

Administrative expenses as a percentage of turnover reduced slightly to 19.9% for the first six months of 2007 compared to 20.7% for the same period in 2006. The cost mainly covered salary, legal and professional fee, depreciation and rental charges. Total administrative expenses increased by HK$4.6 million to HK$38.5 million for the six months ended 30 June 2007 as compared to HK$33.9 million for the same period in 2006. It is mainly caused by the additional salary expenses for the professional managers recruited from multinational corporations for PRC and Taiwan operation.

Other operating expenses

For the six months ended 30 June 2007, other operating expenses totaled HK$3.2 million, which mainly represented the provision of obsolete inventory of HK$2.3 million and bank charges of HK$0.9 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 other operating expenses contributed to the surge of 31.1% in profit before tax, from HK$72.8 million for the six months ended 30 June 2006 to HK$95.5 million for the same period in 2007.

Taxation

Taxation expenses reduced by 9.6% from HK$23.4 million for the six months ended 30 June 2006 to HK$21.2 million for the six months ended 30 June 2007. The effective tax rate of the Group for period ended 30 June 2006 and 2007 were 29.6% and 22.2% respectively. The drop in effective tax rate was benefited from our PRC operation, where a subsidiary started to utilize the first year benefit from its two-year exemption followed by three-year half deduction profit tax holiday (2 + 3 tax holiday). As a result, the effective tax rate has dropped to 22.2% from 29.6% for the same period last year.

Net profit for the period

For the six months ended 30 June 2007, the Group's net income increased by 50.4% to HK$74.3 million from HK$49.4 million for the six months ended 30 June 2006.

Liquidity and financial resources

Cash generated from operations for the six months ended 30 June 2007 was approximately HK$145.1 million. As at 30 June 2007, the Group had bank balances and cash of approximately HK$501.4 million (as at 31 December 2006: HK$356.2 million)

In terms of gearing, as at 31 December 2006 and 30 June 2007, 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 balance sheet dates. Current ratio of the Group (defined as current assets divided by current liabilities) as at 31 December 2006 and 30 June 2007 were 5.7 times and 4.8 times respectively. The drop in the current ratio was due to the final and final special dividend of 2006 totaling HK$85 million was only payable in July 2007 and therefore included as part of the current liabilities at the balance sheet date. As at 30 June 2007, the Group had no material contingent liabilities, other than those disclosed in its financial statements and notes thereto. With the cash on hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to finance its commitments and working capital requirements.

The Group also entered into a sale and purchase agreement for the disposal of an investment property in Taiwan in April 2007. The majority of the sales proceed of TWD677 million (approximately HK$159 million) was received and legal title transferred in July 2007. Majority of the sales proceed will be distributed as dividends to shareholders over a few years. We expect to maintain our dividend pay-out at or above 100% in the foreseeable future.

Charges on assets

Certain freehold investment properties of the Group with a carrying amount of HK$157.3 million (as at 31 December 2006: HK$157.8 million) were pledged to a bank. The banking facilities granted by the bank were terminated in 2002. The charge had been released in April 2007 to facilitate the disposal of the investment properties.

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 2007, approximately 39.5% (as at 31 December 2006: 66.9%) of the Group's bank balances and cash was denominated in Renminbi, while approximately 27.0% (as at 31 December 2006: 22.2%) was denominated in New Taiwan Dollar and the remaining 33.5% (as at 31 December 2006: 10.9%) 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	**1H2007** ***HK$'000***	1H2006 *HK$'000*	**Variance** *HK$'000*	**Variance** %
PRC				
Products sales	**133,004**	108,605	24,399	22.5%
Service	**4,147**	2,833	1,314	46.4%
Entrustment	**2,131**	2,295	(164)	-7.1%
PRC Total	**139,282**	113,733	25,549	22.5%
Taiwan				
Products sales	**46,226**	41,716	4,510	10.8%
Service	**4,339**	4,751	(412)	-8.7%
Entrustment	**–**	–	–	n/a
Taiwan Total	**50,565**	46,467	4,098	8.8%
Others				
Products sales	**2,728**	2,646	82	3.1%
Service	**613**	779	(166)	-21.3%
Entrustment	**–**	–	–	n/a
Others Total	**3,341**	3,425	(84)	-2.5%
GROUP TOTAL				
Products sales	**181,958**	152,967	28,991	19.0%
Service	**9,099**	8,363	736	8.8%
Entrustment	**2,131**	2,295	(164)	-7.1%
Group Total	**193,188**	163,625	29,563	18.1%

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 product sales in the PRC increased 22.5% to HK$133.0 million. Gross margin of product sales also recorded growth, from 87.0% to 88.2% for the six months ended 30 June 2007, representing a year-on-year growth of 1.2 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 decrease in entrustment income of HK$0.1 million, the Group's overall gross profit in the PRC increased by HK$23.6 million and the overall gross margin also increased from 83.1% to 84.8% for the six months ended 30 June 2007, representing a year-on-year growth of 1.7 percentage points.

With the increase in other operating income, mainly tax refund, the operating profit for the first six months of 2007 surged by 14.6%, to HK$84.1 million as compared to HK$73.4 million for the same period in 2006.

Taiwan Market

Despite Taiwan was still experiencing economic recession during the period under review, the product sales in Taiwan has increased by 10.8% to HK$46.2 for the six months ended 30 June 2007 compared to HK$41.8 million for the corresponding period in 2006, which was mainly attributable to the HK$5.4 million from our newly launched retail brand "Fonperi" products.

The service revenue generated from the Taiwan market slightly decreased by HK$0.4 million compared to the same period of last year, with a small gross profit of HK$0.1 million for six months ended 30 June 2007, as our strategy has been shifted from service income oriented to product sales oriented.

Distribution channels

Store Number by Ownership As at 30 June 2007	Franchisee owned Spa	Entrusted Spa	Self owned Spa	Total Spa	Entrusted Counter	Self owned Counter	Total Counter	Group Total	Retail Channel	Grand Total
Taiwan	468	–	9	477	–	–	–	477	1,100	1,577
PRC	1,613	21	5	1,639	19	52	71	1,710	–	1,710
Others	51	–	1	52	–	–	–	52	–	52
Total	2,132	21	15	2,168	19	52	71	2,239	1,100	3,339

Store Number by Ownership As at 30 June 2007	Franchisee owned	Entrusted	Self owned	Group Total	Retail Channel	Grand Total
Taiwan	468	–	9	477	1,100	1,577
PRC	1,613	40	57	1,710	–	1,710
Others	51	–	1	52	–	52
Total	2,132	40	67	2,239	1,100	3,339

The Group principally derives income through its unique distribution channels, namely spas and counters in department stores. As at 30 June 2007, there were a total of 2,239 store outlets, of which 2,168 were spas and 71 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 2,132 franchised spas as of 30 June 2007. There were also 15 spas and 52 counters directly operated by the Group. Furthermore, there were a total of 21 spas and 19 counters being entrusted to reputable operators.

A total of 74 new stores were opened during the period under review, while we ordered the closure of 103 stores, mainly less effective stores. Our target is to encourage franchisees to open bigger spas with revamped image, to improve the average store sales through enhancement of spa service experience by customers. There were also 161 retail outlets in Taiwan to pilot test retail products as of 31 December 2006. Since the launch of the Fonperi products, the retail outlets in Taiwan has increased to 1,100 point of sales including Watsons, Carrefour, Geant, RT-Mart, Wellcome, Well-Care and others.

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 2007, the Group's overall gross margin has surged to 83.8%, compared to 78.7% for the same period last year, representing a year on year growth of 5.1 percentage points on overall gross margin.

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 2007, a total of 1,646 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. There were 204 products in PRC and 110 products in Taiwan, total of 314 products have changed their product packages by 30 June 2007. This led to a higher product gross margin of 88.7% as compared to 84.4% for the same period last year for the group, up by 4.3 percentage points. 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 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 2007 amounted to HK$0.9 million (1H 2006: HK$1.4 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 2007, over 62,000 sets/bottles of NB-1 family products were sold, with a turnover of HK$48.4 million.

We also launched a retail brand "Fonperi" in Taiwan in April this year, Fonperi products are sold via retail channel like hypermarkets and drugstores, including 6 key accounts, namely Watsons, Carrefour, Geant, RT-Mart, Wellcome and Well-Care, as well as 10 wholesalers. These outlets have over 1,100 points of sales in Taiwan. Since the launch in April this year, there were over 116,000 units sold with a turnover of HK$5.4 million by the end of June 2007.

In 2007, the Group continued to enrich its product range and launched 6 new products in PRC and 38 products in Taiwan, including 13 products related to Fonperi brand during the period under review.

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. There were three logistics centres in PRC operated by the Group. The Warehouse Management System (WMS) is now linked to Oracle ERP system. The implementation of all modules of the ERP in the PRC is expected to complete by end of 2007.

The Group also has developed a B2B portal for our franchisee to order goods online to improve our operating efficiency. In addition, we also have a B2C portal in our website for retail customers to shop online.

Human Resources

As at 30 June 2007, the Group had a total of 899 employees, of which 699 were based in PRC, 184 in Taiwan and 16 in other areas. Total remuneration (excluding directors' emoluments) for the six months ended 30 June 2007 was approximately HK$38.1 million (1H 2006: HK$30.4 million), including retirement benefits cost of HK$3.9 million (1H 2006: HK$3.1 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. No share option had been granted under the share option scheme up to 30 June 2007. On 27 July 2007, the Group granted options to certain employees to subscribe a maximum of 1,729,542 shares, subject to achieving certain performance targets. The stock options could be vested at a ratio of 50%, 30% and 20% for a three-year period.

The Directors also strengthened its professional management team by recruiting chief operational officer, and some key management positions like head of sales and head of marketing for PRC and Taiwan market from multinational companies. The board believes that the recruitment of more industry experts will be beneficial to 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$8.4 million additions to fixed assets for the period ended 30 June 2007 (30 June 2006: HK$3.8 million). The increase in capital expenditure was mainly due to renovation of the existing self-own spas and offices of our Shanghai headquarter.

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 is in the process of evaluating the need for any new factory.

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. With the extensive training provided to the franchisees and better communication, we will fortify our leading position in the spa market and continue to expand our franchise network and to improve the average sales per store.

Taiwan economy remain weak and in its process of recovery. We expect flat economic growth in Taiwan with a rising consumer price index. Hence, the need for less price premium products is high, and our strategy of launching the Fonperi brand is targeting that segment of the market. The result of presidential election next year will have a major impact on the Taiwan economy in the near future.

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 2007 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

Mrs. Chen Shieh Shu Chen ("Mrs. Chen"), an Independent Non-executive Director, having served on the Board as an Independent Non-executive Director since 2002, retired and was re-elected as an Independent Non-executive Director in 2004. According to Article 117 of the articles of association of the Company ("Articles"), at each annual general meeting, one-third of the directors for the time being, or if the total number of Directors is not three or a multiple of three, such number of Directors nearest to but not exceeding one-third shall retire from office by rotation. As the Company has a total of 7 Directors at the time of the annual general meeting of the Company held on 15 June 2007 ("AGM"), according to the Articles, the number of directors who were required to retire from office was 2 and as a result, Mrs. Chen did not retire from office at the AGM. However, according to Code A.4.2 of the Code on Corporate Governance, every Director should be subject to retirement by rotation at least once every 3 years. Mrs. Chen, who has been in office since her re-election in 2004, will have served the Company for 3 years by the end of 2007 and is therefore subject to retirement by rotation in 2007.

In order to conform to the Listing Rules and the requirements set out in Code A.4.2 of the Code on Corporate Governance, the Company proposes in a circular to its shareholders dated 27 August 2007 to amend the Articles. The proposed amendments to the Company's articles of association are subject to the approval of the Shareholders by way of a special resolution at the extraordinary general meeting of the Company to be held on 8 October 2007 ("EGM") and the aforesaid amendments shall become effective once the Shareholders of the Company shall have duly passed the relevant special resolution at the EGM.

Mrs. Chen will retire at the EGM and being eligible, offers herself for re-election at the EGM as an Independent Non-executive Director.

Saved as disclosed above, 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 2007 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 six months ended 30 June 2007, 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 2006. 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 2007.

On 27 July 2007, the Group has granted options to certain employees to subscribe a maximum of 1,729,542 shares and the stock options will be vested at a ratio of 50%, 30% and 20% over a three-year period subject to achieving certain performance targets.

INTERIM AND INTERIM SPECIAL DIVIDEND

The Board has resolved to recommend the payment of an interim dividend of 3.0 HK cents per share (2006: interim dividend of 1.4 HK cents) and an interim special dividend of 2.0 HK cents per share (2006: 0.6 HK cents). The interim dividend and interim special dividend will be distributed on or around 18 October 2007 to shareholders whose names appear on the register of members of the Company as at the close of business on 28 September 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 September 2007 to 28 September 2007, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the interim dividend and interim 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 Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 25 September 2007. The interim dividend and interim special dividend will be distributed on or around 18 October 2007.

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, Dr. 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, 10 September 2007