## 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 | | |
|---|---|---|---|---|---|---|
| | Average store * | Average store * | Average sales per store | Average sales per store | Changes | Changes |
| | | | HK$ | HK$ | 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 HK$'000 | 1H2005 HK$'000 | Variance HK$'000 | Variance % |
|---|---|---|---|---|
| **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 | | Changes | |
|---|---|---|---|---|---|---|
| | 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$0.5million, 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 and closure of branches and subsidiaries, 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**

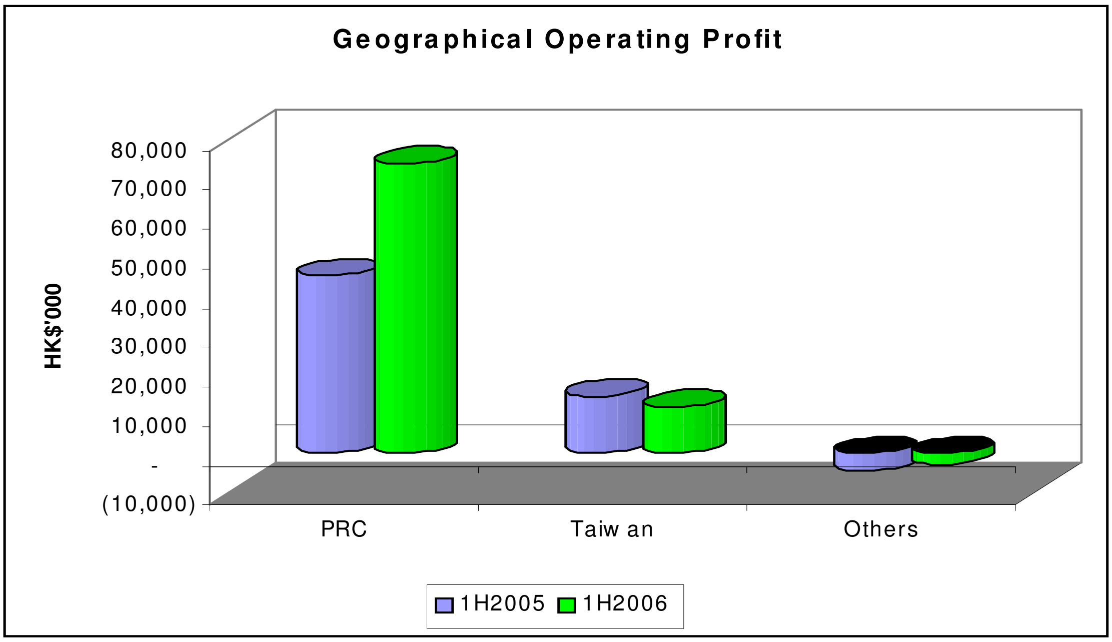
Certain freehold investment properties of the Group with a carrying amount of HK$157.2 million (as at 31 December 2005: HK$155.3 million) are pledged to a bank. The banking facilities granted by the bank were terminated in 2002 but the charge has not been released to facilitate application of banking 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<br>HK$'000 | 1H2005<br>HK$'000 | Variance<br>HK$'000 | Variance<br>% |
|---|---|---|---|---|
| **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.

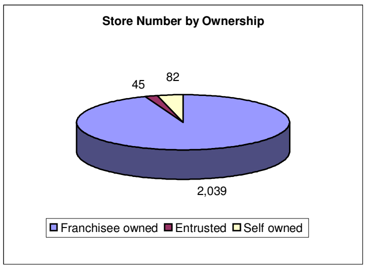
Despite the Group's service revenue generated from the Taiwan market remained stable as compared to the same period of last year. The group managed to turn services from loss in first half of 2005 to a small gross profit of HK$0.3 million for six months ended 30 June 2006.

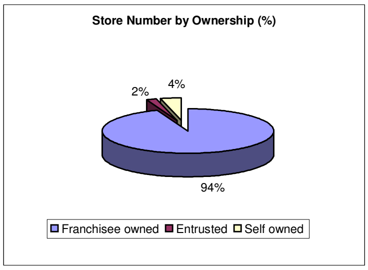
Due to the weak economic condition in Taiwan, resulting to lower product sales and margins, operating profits reduced by 17.9% to HK$12.0 million during the period under review.

## Distribution channels

| Store Number by Ownership<br>As at 30 June 2006 | Franchisee owned<br>Spa | Entrusted<br>Spa | Self owned<br>Spa | Total<br>Spa | Entrusted<br>Counter | Self owned<br>Counter | Total<br>Counter | Grand<br>Total |
|---|---|---|---|---|---|---|---|---|
| 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<br>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 2006.

**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 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, 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.

- End -