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Beauty China to start commercial production of cosmetics by Sep 07

- *Successful trial production since March 2007*
- *Acquisition of new GMP-compliant cosmetics manufacturing facility in Zhuhai will be completed once the factory receives its permanent business licence*

SINGAPORE – 31 July 2007 – Mainboard-listed **Beauty China Holdings Limited** (“Beauty China” or the “Group”), which owns and manages the Colour Zone and CharmingLady brands of colour cosmetics and skincare products in China, targets to start commercial production of cosmetics by September 2007, which would bring it one step closer to becoming an integrated cosmetics company.

In February 2007, Beauty China announced its intention to acquire a brand new cosmetics manufacturing facility in Zhuhai, China, which is purpose-built to the internationally-recognised Good Manufacturing Practice (“GMP”) standard. Trial production began in March 2007. Commercial production will commence once the factory’s current Business Licence is converted from provisional to permanent status, which is expected to take place before the end of September 2007. GMP certification is likely to be obtained before the end of 2007.

“Trial production has been running smoothly so far, and we are looking forward to start commercial production once all the required licences are in place. This factory will probably be the only GMP-certified cosmetics plant in China, with the highest standard

for manufacturing a full range of cosmetics products, when the GMP certification process is completed by the end of 2007. This definitely gives Beauty China a first mover advantage, when the Chinese government further tightens regulations on cosmetics manufacturing to be in line with international standards,” said Mr Wong Hon Wai, Beauty China’s Chairman and Managing Director.

About the Cosmetics Factory

Located on an 85,439 sq.m land parcel in the Jin Wan Industrial Zone of Zhuhai, the cosmetics production facility has a total gross floor area of approximately 32,803 sq.m. The facility houses four blocks of workshop buildings with 24 production lines, as well as one block of six-storey dormitory building and one block of two-storey canteen.

When running at two labour shifts, the factory is capable of a maximum annual capacity of 132 million units of cosmetics products – comprising 30 million pieces of lipsticks; 43 million pieces of facial powder products; 7 million bottles of nail polishes; 28 million units of skincare products; and 24 million units of hair colourant products.

Mr Wong commented, “The Group’s strategic decision to commence in-house cosmetics production is to ensure a reliable supply of high quality products for Colour Zone and CharmingLady, as well as to enlarge our future revenue stream through OEM manufacturing. Out of the estimated 3,000 cosmetic plants in the Mainland China, we understand there are only about 20 which are GMP-certified for mainly skincare products. With a GMP-certified factory that can produce the full range of colour cosmetics, skincare, body-care and hair-care products, we believe this would not only give Beauty China a significant competitive edge but also boost consumer confidence in our brands.”

About the Acquisition

The Group signed a Share Purchase Agreement (“SPA”) on 26 February 2007 to acquire from an independent third-party (the “Vendor”) the entire shareholding in Samoa-incorporated Fu Teng International Limited (“Fu Teng”), which in turn holds 100% of Zhuhai City Mei Zhi Hui Ri Hua Co., Ltd. (珠海市美之荟日化有限公司)

(“Mei Zhi Hui”), for a total consideration of HK\$293 million (S\$57.2 million¹) (the “Consideration”), comprising 75% in cash and 25% in new shares of Beauty China (the “Consideration Shares”).

Since then, Mei Zhi Hui has obtained the Hygiene Approval Permit, Production Approval Permit and provisional Business Licence from the relevant authorities in China. On 30 July 2007, the Group entered into a supplemental agreement with the Vendor, stating that its acquisition of Mei Zhi Hui would be completed once the provisional Business Licence is converted to a permanent status – targeted to take place before 28 September 2007. Commercial production is expected to commence immediately thereafter.

To date, Beauty China has paid 20% of the Consideration, which is a cash equivalent of HK\$58.6 million. The next payment tranche of 50% of the Consideration, amounting to approximately HK\$146.5 million, will be paid when Mei Zhi Hui is allowed to start commercial production.

The final tranche – comprising 5% of the Consideration by cash equivalent to approximately HK\$14.7 million, and 25% of the Consideration by way of allotment and issuance of 14,027,488 Consideration Shares – will be paid when Mei Zhi Hui receives the GMP certificate by the end of the year. The Consideration Shares shall be issued at S\$1.02 each which is the average closing price of the shares of the Company quoted on SGX-ST for the last 10 trading days up to but not including the date of SPA. The Vendor has agreed not to dispose of any of the Consideration Shares within 6 months from the date of allotment and issuance of the Consideration Shares.

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¹ Based on exchange rate of HK\$5.1195 = S\$1

About Beauty China

Beauty China owns and manages “Colour Zone” brand of colour cosmetics and skincare products targeted at young and trendy women in Mainland China, aged between 18 and 28 years in the mass market. Developed in 1996, Colour Zone was voted one of “The Ten Best (Local) Brands” in the Chinese cosmetics industry² in 2003 and 2004. In April 2006, Colour Zone was the only local Chinese brand to be awarded one of the “2005 Top 10 Best Selling Brands” of colour cosmetics products by China General Chamber of Commerce and China National Commercial Information Center. In October 2006, Colour Zone was awarded jointly by ICN China, China National Commercial Information Center and Euromonitor as one of the “2005-2006 Most Popular Make-up Brands” in China, among Maybelline, L’Oreal, Yue-Sai and Aupres.

With more than 600 varieties of individual end-products, Colour Zone products are retailed in over 1,270 outlets which are mainly dedicated counters in department stores and standalone specialty stores in every province throughout China, as far reaching as Xinjiang, Tibet and Inner Mongolia. The retail outlets are owned and operated by more than 60 customers of Beauty China, who are independent distributors and retailers. The outlets carry only Colour Zone products at retail prices recommended by Beauty China.

To broaden the target consumer group of its products, Beauty China launched a new “CharmingLady” brand of colour cosmetics and skincare products in December 2004, which targets ladies above the age of 25 with relatively higher disposable income and is retailed at about 180 department store counters separated from Colour Zone’s in Mainland China.

Beauty China designs and conceptualises the way its Colour Zone and CharmingLady products are packaged, marketed and sold, and ensures that these are adopted consistently by all its distributors and retailers. New products are regularly developed by partnering with overseas cosmetics research and development experts to meet different consumer needs in the local Chinese market.

In 2007, Beauty China plans to start the commercial operation of its own research and development centre, as well as to expand into the production of cosmetics products in Mainland China by acquiring a manufacturing facility. These moves will strengthen the Group’s market and brand position, and bring it closer to its aim of becoming an integrated cosmetics player.

² In two market surveys conducted jointly by China Product Safety Monitoring and Testing Centre (中国产品安全评价监测中心), China Association of Industry Investigation and Statistics(中国调查统计行业协会) and China Association of Famous Brands(中国名牌商品协会) in March 2003 and March 2004.