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## **Beauty China maintains growth momentum with 2Q08 net profit up 20.4% to HK\$41.7 million**

- *Growth driven by continued expansion of retail network and enhanced utilisation of its new manufacturing facilities*
- *Gross profit margins of both its Brand and Manufacturing Businesses improved to 65% and 51%, respectively*
- *Announces maiden interim dividend of 2 HK cents per share*

**SINGAPORE – 13 August 2008** – Continuing its solid growth momentum since its listing in 2003, **Beauty China Holdings Limited** (“Beauty China” or the “Group”), an integrated cosmetics company which owns and manages two brands (Colour Zone and CharmingLady) as well as a GMP-compliant cosmetics manufacturing facility in China, today announced robust results for its second financial quarter ended 30 June 2008 (“2Q 2008”).

Net profit grew 20.4% to HK\$41.7 million (S\$7.3 million<sup>1</sup>), on the back of a 34.6% hike in revenue to HK\$159.7 million (S\$27.9 million) – thanks to the Group’s continued expansion of its Colour Zone and CharmingLady network, as well as improved utilisation of its newly acquired cosmetics factory.

“Over the years, Beauty China has proven our ability to consistently grow our top and bottom line, with healthy gross profit margins. We put up a creditable performance in

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<sup>1</sup> Based on exchange rate of HK\$5.7323 = S\$1

2Q 2008, against inflationary pressures in raw material and labour costs. We have been able to handle these industry challenges due to our strong brand awareness, established distribution network and superior product quality. Our EU and US GMP-certified cosmetics factory – a rarity in the local industry – has also given us a head start in the OEM cosmetics market,” said the Group’s Chairman and Managing Director, Mr Wong Hon Wai.

The latest set of financial results translates into fully-diluted earnings per share of 11.6 HK cents (2.0 Singapore cents), compared to 10.0 HK cents in the corresponding period last year. As at 30 June 2008, net asset value per share was 213.1 HK cents (37.2 Singapore cents), versus 172.0 HK cents as at 31 December 2007.

To reward shareholders, the Group is proposing a maiden one-tier tax exempt interim cash dividend payment of 2 HK cents per ordinary share.

### ***Review of Brand Business***

As at 30 June 2008, there were 1,651 Colour Zone and 350 CharmingLady points-of-sale (“POS”) throughout China, a net increase of 102 POS from 31 March 2008.

Colour Zone contributed approximately HK\$136.7 million or 85.6% of the Group’s total 2Q 2008 sales, up from HK\$107.0 million in the same quarter a year ago. Sales of CharmingLady also increased from HK\$11.7 million in 2Q 2007, to HK\$17.8 million or 11.2% of 2Q 2008 revenue.

The Sichuan earthquake in May 2008 had minimal impact on the Group’s performance, as the number of POS in the whole Sichuan province constituted no more than 5% of its entire retail network and only about 10 retail outlets in Sichuan, representing less than 1% of all POS in China, were permanently closed after the disaster.

During the quarter under review, the Group launched a number of new products and increased the selling prices of some products by 5-10% since June 2008. This helped to boost the overall gross profit margin of its Brand Business to 65.0%, compared to 62.1% in 1Q 2008 and 62.8% in 2Q 2007.

In 2Q 2008, Beauty China rolled out more than 80 new SKUs (“Stock Keeping Units”) of Colour Zone colour cosmetics and skin-care products. At the same time, the Group launched a new product image for CharmingLady, as well as 3 new series of skin-care products comprising 26 SKUs.

Elaborating on its branding strategy, Mr Wong said, “While both Colour Zone and CharmingLady are targeted at China’s mass market, we want to further entrench Colour Zone’s market position as a colour cosmetics brand for young ladies, and refocus CharmingLady as a skin-care brand for more matured ladies. The new product image and skin-care products of CharmingLady are a deliberate step in this direction.”

To strengthen its Colour Zone brand, the Group has recently appointed well-known artiste, Angela Chang (张韶涵) as its brand ambassador. A singing diva in the Mandarin pop scene, Angela has played leading lady roles in popular Taiwanese drama series such as “My MVP Valentine” (我的MVP情人), “Love at Dolphin Bay” (海豚灣戀人) and “Romantic Princess” (公主小妹). The Group plans to launch a new advertising campaign in 3Q 2008 to promote its new ambassador.

The Group is currently in the midst of looking for a new ambassador for its CharmingLady brand, while it continues to run advertising and promotion events to raise consumer awareness of this brand.

### ***Review of Manufacturing Business***

Since 1Q 2008, Beauty China commenced manufacturing for OEM/ODM customers – providing a new and growing revenue stream for the Group.

Accounting for 3.2% of 2Q 2008 revenue, the Group’s third-party Manufacturing Business generated HK\$5.2 million sales, an improvement from its maiden contribution of HK\$3.6 million in 1Q 2008.

Average utilisation in 2Q 2008 improved to 39%, compared to 27% in 1Q 2008. To date, average utilisation has reached almost 50%. The Group targets to reach more than 60% utilisation (based on one labour shift) by the end of FY2008. The factory is capable of operating at a maximum of two labour shifts.

With the enhanced utilisation, the Group's Manufacturing Business recorded a gross profit margin of 51.1% in 2Q 2008, a slight increase from 48.5% for 1Q 2008. In this latest quarter, this business segment continued to operate at a loss of HK\$2.8 million. Nevertheless, the Group aims to have its new Manufacturing Business break even by the end of this year.

In 2Q 2008, about 63% of production was for the Group's own Colour Zone and CharmingLady brands, while the remaining 37% was for OEM brands. By FY2009, the Group anticipates that most of the production needs of its two brands will be met internally.

"By producing our own products, we are not only assured of the highest quality, but also capture the processing fees we currently pay to our third-party manufacturers. More significantly, we are capitalising on the huge opportunities in the OEM/ODM market to enhance our revenue streams," explained Mr Wong.

As of 31 July 2008, the Group has confirmed OEM orders worth approximately HK\$10 million to be delivered in the second half of this year.

### ***Looking Ahead***

Moving forward, the Group remains confident that the demand for cosmetics and skin-care products in Mainland China will be strong. According to Research and Markets, the total cosmetics and toiletries market in China reached a total value of RMB116.24 billion in 2007, up 18% from the previous year.

"Our Brand Business will continue to be the core revenue generator in the near future. We believe our strategies of active advertising and promotions, new product development and network expansion will continue to sustain our growth. Operationally, we foresee that the industry will face inflation pressures and stiffer competition.

Nonetheless, we are cautiously optimistic of our Group's performance in the next 12 months, barring any unforeseen circumstances," added Mr Wong.

**About Beauty China**

*An integrated cosmetics company in Mainland China, Beauty China owns and manages two colour cosmetics and skincare brands - "Colour Zone" and "CharmingLady" - as well as a cosmetics production facility in Zhuhai to manufacture products under its own brands and third-party products .*

*A mass-market brand, Colour Zone targets at young and trendy women between the ages of 18 and 28 years. Developed in 1996, Colour Zone was voted one of "The Ten Best (Local) Brands" in the Chinese cosmetics industry<sup>2</sup> 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 1,651 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. According to Euromonitor<sup>3</sup>, the market share of Colour Zone brand reached 3.8% and was ranked No.4 in the colour cosmetics segment of Mainland China in 2006.*

*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 350 points of sales.*

*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 started the commercial operation of its own research and development centre as well as expanded into the production of cosmetics products in Mainland China by acquiring a GMP-certified production facility.*

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<sup>2</sup> 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.

<sup>3</sup> Taken from the report "Cosmetics and Toiletries in China" issued by Euromonitor in June 2007.