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## Beauty China’s 1Q08 net profit up 5.3% to HK\$35.4 million

- Revenue rose 30.3% to HK\$149.5 million, which included first-time contribution from new Manufacturing Business
- Confirmed OEM orders worth HK\$12 million for delivery in 2008
- Operating profit margin of existing Brand Business improved significantly from preceding quarter
- Higher operating expenses relating to the new factory resulted in an operating loss for the new Manufacturing Business and lower overall profit growth

Financial Highlights (HK\$ million)	3 months ended 31 March		
	1Q2008	1Q2007	Growth (%)
Revenue	149.5	114.7	↑30.3
Gross Profit	92.4	71.9	↑28.4
Net Profit	37.3	35.4	↑5.3
Basic EPS* (HK cents)	10.7	10.3	↑3.9
Fully-diluted EPS^ (HK cents)	10.6	10.2	↑3.9

\* Based on weighted average issued share capital of 347,293,363 (1Q07: 342,360,620) shares.

^ Based on weighted average number of issued shares and dilutive potential shares of 350,405,060 (1Q07: 345,400,991) shares.

**SINGAPORE – 14 May 2008** – Mainboard-listed **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 brand-new cosmetics manufacturing facility in China, today announced that its first quarter net profit ended 31 March 2008 grew by 5.3% to HK\$37.3 million (S\$6.6 million<sup>1</sup>).

<sup>1</sup> Based on exchange rate of HK\$5.6402 = S\$1

Group revenue increased by 30.3% to HK\$149.5 million (S\$26.5 million), boosted by a 27.2% year-on-year growth of its two brands of colour cosmetics and skin-care products – Colour Zone and CharmingLady (“Brand Business”), as well as the first-time contribution of HK\$3.6 million from its new cosmetics manufacturing business (“Manufacturing Business”).

In the first quarter under review, Colour Zone sales accounted for approximately 87.9% of the Group’s total revenue, whilst CharmingLady contributed approximately 9.7%. Its new Manufacturing Business accounted for the remaining 2.4%.

During the first three months of FY2008, a total of 71 Colour Zone and 32 CharmingLady outlets were added, making up a total of 1,584 Colour Zone and 313 CharmingLady outlets as at 31 March 2008. Outside Mainland China, the Group’s Colour Zone products were also retailed at 32 Sa Sa stores in Hong Kong and Macau, contributing no more than 1% of total revenue.

#### **EPS/NAV Per Share**

In its latest first quarter results, the Group’s fully-diluted earnings per ordinary share increased from 10.2 HK cents to 10.6 HK cents (1.9 Singapore cents), whilst its net asset value per ordinary share rose from 172.0 HK cents (as at 31 December 2007) to 204.3 HK cents (36.2 Singapore cents) as at 31 March 2008.

In spite of higher material costs, the Group managed to maintain its gross profit margin at around the 60% to 65% band. In the first quarter of the year, its Brand Business achieved gross profit margin of 62.1%, while its new Manufacturing Business recorded 48.5%. The overall blended gross profit margin worked out to be 61.8%.

More significantly, the Group’s Brand Business achieved an operating profit margin of 28.9% in 1Q2008, a marked improvement from the 19.6% achieved in the preceding 4Q2007. Operating profit from its Brand Business for 1Q2008 reached HK\$42.1 million, representing a 19.0% year-on-year growth, while the Manufacturing Business experienced an operating loss of HK\$3.3 million.

The most recent operating profit margin of the Brand Business declined slightly from 30.9% earned in 1Q2007, mainly due to the increased costs of materials and logistics caused by the hike in oil prices as well as the inflation of salaries and wages in Mainland China.

**Quote from the Group's Chairman and Managing Director, Mr Wong Hon Wai**

“We are very pleased that the Group's Brand Business in the first quarter of FY2008 still maintained an impressive growth from the same period of last year, despite some disruption in the transportation and retail business in certain areas of China during the severe snowstorm in late January and early February of this year. We have also managed our costs well, and that has enabled us to maintain gross margins at the 60% plus level, whilst making a significant improvement to our operating profit margin from the previous fourth quarter.”

“We are also happy to report that our new manufacturing business has started to contribute to the Group's revenue even though it is currently operating at an utilisation rate just exceeding 30%. We believe that our GMP certified production facility, which is very rare in China's cosmetics industry, should appeal to OEM and ODM customers who are looking for a quality manufacturing partner in China. To date, the Group has confirmed OEM orders from third-party customers with an aggregate value of approximately HK\$12 million for various types of cosmetics for delivery later this year, and more new orders are anticipated,” Mr Wong added.

**Prospects**

Armed with Beauty China's solid track record, and the huge potential in China's cosmetics market, the Group plans to expand its distribution network in China and to launch more products under its brands.

However, the Group is aware of the potential fiscal, legislative and administrative measures by China's Central Government in an effort to strengthen macro-control in a bid to prevent an overheating in its economy. Such measures may affect the development of its consumer market. Whilst the upcoming Beijing Olympics promises to be a strong catalyst to boost consumption in China, there may be increased competition in various market segments.

The surge in crude oil prices to new record levels in recent months continues to be a concern to the Directors because of its potential impact on the Group's material costs. The Directors will continue to monitor the situations as described above, and may consider adjusting the Group's strategies to facilitate its development in the Chinese cosmetics industry.

Barring any unforeseen circumstances, the Directors of Beauty China remain cautiously optimistic of the Group's performance in the next 12 months.

#### **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 1,584 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. Colour Zone products are also distributed in Hong Kong and Macau through more than 30 Sa Sa stores. 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 313 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.