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## Expanding retail network drives Beauty China's 2Q net profit up 30.4% to HK\$26.7 million

Financial Highlights (HK\$ million)	3 months ended 30 June 2006			6 months ended 30 June 2006		
	2006	2005	Growth (%)	2006	2005	Growth (%)
Revenue	88.6	62.8	+ 41.0	175.8	128.9	+ 36.3
Gross Profit	55.5	39.2	+ 41.3	111.0	81.1	+ 36.9
Net Profit	26.7	20.5	+ 30.4	53.8	42.9	+ 25.6
Basic EPS (HK cents)	7.8	6.0	+ 30.0	15.7	12.5	+ 25.6

**SINGAPORE – 8 August 2006** – Mainboard-listed **Beauty China Holdings Limited** 妍华控股有限公司 (“Beauty China” or “The Group”), a brand management company that owns and manages the *Colour Zone* and *CharmingLady* brands of colour cosmetics and skincare products catering to the mass market in Mainland China, today announced a 30.4% surge in net profit to HK\$26.7 million (S\$5.5 million<sup>1</sup>) for the second quarter of FY2006 ended 30 June 2006 (“2Q 2006”).

Driven by Beauty China’s continued expansion of its *Colour Zone* and *CharmingLady* retail network in Mainland China, the Group generated a 41.0% jump in revenue to HK\$88.6 million (S\$18.1 million), compared to 2Q 2005. On a half-yearly basis, the Group achieved a 25.6% gain in 1H 2006 net profit to HK\$53.8 million (S\$11.0 million), whilst sales grew by 36.3% to HK\$175.8 million (S\$36.0 million).

<sup>1</sup> Based on exchange rate of HK\$4.8835 = S\$1

At a half-time tally, Beauty China had more than 1,040 *Colour Zone* outlets and 73 *CharmingLady* outlets as at 30 June 2006, which grew by approximately 240 and 30 outlets respectively year-on-year. Beauty China's retail network also includes 23 Walmart and 51 Watson's stores in Mainland China, as well as 40 Sa Sa stores in Hong Kong and Macau. For the first half of 2006, Hong Kong and Macau sales contributed about 1% of the Group's total turnover.

Commenting on the results, Mr Sam Wong, Beauty China's Chairman and Managing Director said, "According to a June 2006 report by Euromonitor, sales of cosmetics and toiletries surged 11% in current value terms in 2005. The cosmetics industry in China is clearly growing, and in spite of the strong competition amongst foreign and local players, we are pleased that Beauty China has demonstrated its ability to achieve strong consistent growth, year on year."

Despite the rising costs of ingredients and packaging materials, gross profit margin for the first half for 2006 improved to 63.2%, from 62.9% in the same period last year. For 2Q 2006, gross profit margin saw a slight increase from 62.5% in 2Q 2005 to 62.6% - which was a slight dip compared to 63.7% in the first quarter of 2006.

With regard to the impact of soaring oil prices, Beauty China is of the view that raw material prices and the costs of sales, distribution and logistics would inevitably come under pressure for all players in the cosmetics industry. However, to mitigate the increase in costs, Beauty China has taken steps such as designing new packaging that requires less plastic materials, and launching new and repackaged products which command relatively higher margins.

Based on the Group's latest half-year results, basic earnings per share (based on the weighted average number of 342,360,620 shares) rose from 12.5 HK cents to 15.7 HK cents (3.2 Singapore cents), whilst on a fully diluted basis of 352,760,620 shares, earnings per share was 15.3 HK cents (3.1 Singapore cents). The Group's net asset value per ordinary share increased from 93.8 HK cents to 101.6 HK cents (20.8 Singapore cents) as at 30 June 2006.

Going forward, Beauty China will continue to focus on expanding its retail network and is on track to achieving its target of 1,200 *Colour Zone* and 150 *CharmingLady* outlets in Mainland China by the end of FY2006. The Group also remains highly focused on building its two mass-market brands, as well as product research and development (“R&D”).

#### ***Advertising & Promotions (“A&P”)***

In the second quarter of this year, the Group's A&P expenses rose by 59.7% from HK\$10.0 million in 2Q 2005 to HK\$16.0 million (S\$3.3 million) – largely comprising extensive advertisements in nationwide magazines and television commercials broadcasted in over 100 stations across China – as the Group continued to strengthen its brand marketing efforts to enhance its brand image and sustainability.

In March 2006, Joey Yung (容祖儿), a popular female artiste in the Greater China region, was appointed as the brand ambassador of *CharmingLady* in Mainland China, adding on to its current stable of brand spokespersons – Coco Jiang, *CharmingLady*'s ambassador in Mainland China, Hong Kong and Macau since 2005, and the popular pop duo Twins who have been *Colour Zone*'s ambassadors since 2004 in Mainland China, Hong Kong and Macau.

#### ***Product Research & Development***

Beauty China continues to expand its product range through innovative product development and quality improvement. Its flagship *Colour Zone* brand recently launched a new range of colour cosmetics and skincare products with sun-protection properties, which have been very well received.

The Group plans to set up its R&D centre in China later this year, with the help of an experienced Japanese cosmetics R&D firm as its consultant.

#### ***Update on new tax reform involving “high-end” skincare products in Mainland China***

The Group has yet to receive further clarity on the definition of “high-end” skincare products, on which China's Ministry of Finance intends to levy a 30% consumption tax, from 1 April 2006 on a retrospective basis.

Prior to 1 April 2006, all colour cosmetics products were subject to a 30% consumption tax, and skincare products, an 8%. As part of the new consumption tax reform, the 8% consumption tax for skincare products has been scrapped, but “high-end” skincare products were to be subjected to the same consumption tax as colour cosmetics (i.e. 30%). The industry is currently waiting for the Chinese authorities to shed more light on this matter.

Under its current business model, Beauty China does not bear the cost of consumption tax. Moreover, with just over 30% of its sales attributed to skincare products, Beauty China does not expect the imposition of a 30% consumption tax on skincare products to have a significant impact on its business.

“We will continue to monitor closely the progress of the consumption tax reform and any changes in government policies, so as to formulate appropriate business strategies to maintain Beauty China’s competitive edge,” Mr Wong explained.

“While the cosmetics industry continues to grow unabatedly, we are also cognizant of the recent call by the Chinese government to prevent economic overheating, which may give rise to uncertainties in the consumer goods markets. Notwithstanding this, we are confident of our business fundamentals and firmly believe that our business strategy is sound. Barring any unforeseen circumstances, the Directors remain optimistic of the Group’s performance in the next 12 months,” Mr Wong concluded.

### **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 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 Centre.*

*With more than 600 varieties of individual end-products, Colour Zone products are retailed in over 1,040 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 has also launched a new “CharmingLady” brand of colour cosmetics and skincare products in 2004 which targets ladies above the age of 25 with relatively higher disposable income and is retailed at more than 73 department store counters separated from Colour Zone’s in Mainland China.*

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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.

*As Beauty China focuses on brand management, it concentrates on design and development of products, demand creation and production management. Other non-core activities, such as inventory management, production and product distribution, are outsourced to third parties.*

*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.*

*To create demand on end-products, Beauty China promotes its brands principally via print media and television commercial on a nationwide basis. Celebrities are appointed as its brands' ambassadors to further enhance brand awareness.*

*To maintain quality of Colour Zone and CharmingLady products, Beauty China sources the imported materials used in the manufacture of finished products on behalf of its customers, and selects suitable factories in China to produce the finished goods based on a set of selection criteria. Beauty China also conducts quality checks on incoming materials and finished products at the approved processing factories, as well as at its customers' outlets.*

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