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## Beauty China continues growth trend with 2Q07 net profit up 30% to HK\$34.6 million

- *Retail network in Mainland China grows to 1,345 Colour Zone outlets and 214 CharmingLady outlets, as at 30 June 2007*
- *Expects to commence commercial production of cosmetics by 3Q 2007*

| Financial Highlights<br>(HK\$'million) | 3 months ended 30 June |         |            |
|--|------------------------|---------|------------|
|  | 2Q 2007                | 2Q 2006 | Growth (%) |
| Revenue                                | 118.7                  | 88.6    | ↑ 33.9     |
| Gross Profit                           | 74.5                   | 55.5    | ↑ 34.4     |
| Net Profit                             | 34.6                   | 26.7    | ↑ 29.8     |
| Basic EPS* (HK cents)                  | 10.1                   | 7.8     | ↑ 29.5     |
| Fully-diluted EPS^ (HK cents)          | 10.0                   | 7.6     | ↑ 31.6     |

\* Based on weighted average issued share capital of 342,360,620 shares.

^ Based on weighted average number of issued shares and dilutive potential shares of 2Q 07: 346,407,895 (2Q 06: 352,760,620) shares.

**SINGAPORE – 14 August 2007** – Continuing its consistent growth trend, 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, today reported a 29.8% rise in its second quarter net profit ended 30 June 2007 (“2Q2007”) to HK\$34.6 million (S\$6.8 million<sup>1</sup>), against a 33.9% jump in revenue to HK\$118.7 million (S\$23.2 million) for the same period.

<sup>1</sup> Based on exchange rate of HK\$5.1235 = S\$1

The top-line growth was boosted by a broad-based increase in its retail network, as Beauty China continued to strengthen its presence in Mainland China by adding 70 Colour Zone and 34 CharmingLady outlets in 2Q 2007.

As at 30 June 2007, Beauty China had 1,345 Colour Zone outlets and 214 CharmingLady outlets in Mainland China, with the highest number of Colour Zone outlets in Fujian, Zhejiang, Hubei, Guangdong and Shanxi provinces. On top of this, Colour Zone products are also available in 34 Sa Sa stores in Hong Kong and Macau.

Colour Zone, the Group's flagship brand and key revenue generator, contributed to about 90.1% of the total revenue during the quarter under review, while CharmingLady accounted for the remaining 9.9%. On a segmental basis, colour cosmetics and skincare comprised 71.5% and 28.5% of total sales, respectively.

Commenting on its Group's performance for 2Q 2007, Mr Wong Hon Wai, Beauty China's Chairman and Managing Director, said, "Our commendable performance was largely due to the consistent expansion of our retail network. We continue to reap the rewards from our focus on brand promotion, and have seen growing awareness and loyalty amongst our target customers for both Colour Zone and CharmingLady brands."

On an operating level, selling and distribution costs rose 48.8% year-on-year to HK\$37.8 million, of which advertising and promotion ("A&P") expenses comprised a major component. With the enhanced media exposure in various channels throughout China, including print advertisements, television commercials, media sponsorships and promotional events, A&P expenses amounted to HK\$23.5 million, compared to HK\$16.0 million a year ago. In 2Q 2007, the Group spent about 19.2% of its total sales on A&P.

"The increase in A&P expenses is in line with Beauty China's overall growth strategy. We see branding and marketing initiatives, including the recruitment of marketing personnel, as necessary investments to help the Group increase our market share and gain visibility in the fast growing beauty industry. Our target A&P expenditure in FY2007 for both our Colour Zone and CharmingLady brands is about 20% of the total Group sales," added Mr Wong.

The Group's gross profit margin remained stable at 62.8% for 2Q2007. With increased A&P expenditure, coupled with a general rise in material costs due to higher oil prices, overall net margin dipped slightly from 30.1% last year to 29.2% in 2Q 2007. The Group continues to take measures to mitigate the impact of oil price increases, by launching relatively higher margin new products.

Based on the latest results, the Group's fully-diluted earnings per ordinary share grew from 7.6 HK cents to 10.0 HK cents (2.0 Singapore cents). Net asset value per ordinary share rose from 125.9 HK cents as at 31 December 2006, to 143.3 HK cents (28.0 Singapore cents) as at 30 June 2007.

### ***Business Updates***

In January this year, Beauty China opened its first image store in Shanghai, directly operated by the Group for the purpose of raising brand awareness. To date, it has received encouraging response from consumers and is targeted to break even in 2007. The Group plans to open 15 such image stores within the next three years.

In 2Q 2007, the Group participated in The 12th China Beauty Expo (第十二届中国国际美容化妆洗涤用品博览会) in Shanghai from 10 to 12 May 2007, and received good feedback from potential business partners. In addition, the Organising Committee of the Expo awarded Colour Zone and CharmingLady as "2007 Most Influential Colour Cosmetics Brands" in China.

Looking ahead to the third quarter of the year, the Group aims to complete its acquisition of a brand new cosmetics production plant, purpose-built to the internationally-recognised Good Manufacturing Practice ("GMP") standard. The plant has been carrying out trial production successfully since March 2007. Commercial production will commence once the factory's current Business Licence is converted from a provisional to permanent status, which is expected to take place before the end of September 2007.

"We are looking forward to the completion of our acquisition of our cosmetics manufacturing facility. Out of the estimated 3,000 cosmetic plants in the Mainland China, we believe there are only about 20 which are GMP-certified, producing mainly skincare products. Hence, Beauty China's plant could possibly be the only GMP-certified

cosmetics plant in China, with the highest standard for manufacturing a full range of cosmetics products. We hope to obtain our GMP certification before the end of the year,” commented Mr Wong.

With the Chinese government further tightening regulations on cosmetics products, Beauty China's first-mover advantage with a GMP-compliant factory will put it in good stead amongst its competitors.

“Although we expect a short-term cost pressure due to the higher operating expenses of our manufacturing business before our production is fully ramped up, we are confident this strategic acquisition will not only ensure a reliable supply of high quality products for Colour Zone and CharmingLady, but also enlarge our future revenue streams through OEM manufacturing in the future,” explained Mr Wong.

Against a backdrop of relentless economic growth in Mainland China, consumers' demand for high quality cosmetics products remains strong. The Group will continue to focus on expanding its retail presence – with a target of 1,500 retail points for Colour Zone and 300 for CharmingLady by the end of FY2007 – as well as enriching its product mix to meet changing consumer tastes and include higher margin products.

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***

*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 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 1,345 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.*

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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.

*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 214 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.*

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