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Beauty China to acquire a new GMP-compliant cosmetics manufacturing facility in Zhuhai for HK\$293M

- *Signed Share Purchase Agreement to acquire 100% shareholding in Fu Teng International Limited from an independent third party*
- *Acquisition aims to strengthen the Group's capabilities, secure product supply at the highest standards, and tap opportunities in OEM market*

SINGAPORE – 27 February 2007 – Mainboard-listed **Beauty China Holdings Limited** 妍华控股有限公司 (“Beauty China” or the “Group”), which owns and manages the *Colour Zone* and *CharmingLady* brands of colour cosmetics and skincare products in China, today announced that it will be acquiring a new cosmetics manufacturing facility based in Zhuhai, China, marking a major step forward to become an integrated cosmetics company.

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

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

“Consideration Shares”). The acquisition is expected to be completed by end of July 2007.

The acquisition will enhance Beauty China’s brand management capabilities and allow the Group to leapfrog into the production of cosmetics – creating an integrated cosmetics company that would not only have a stronger position in the market, but also yield accretive earnings in the longer run.

Purpose-built to GMP qualification

Mei Zhi Hui is a wholly foreign-owned enterprise incorporated in March 2004 in Zhuhai, China, of which the scope of business activities includes the manufacture and sale of refined chemical products, cosmetics and health products. It has recently completed the construction of a production facility, perching on an 85,439 sq.m land parcel in Jin Wan Industrial Zone in Zhuhai, with land-use right till 1 August 2052.

This facility is designed and purpose-built for the manufacture of colour cosmetics, skincare, body-care and hair-care products under Good Manufacturing Practice (“GMP”) (EU GMP Air Class 100,000) guidelines. Mei Zhi Hui 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 – tentatively by end of 2007.

The plant, with a total gross floor area of approximately 32,803 sq.m, comprises four blocks of workshop buildings which are planned to accommodate a total of 24 production lines, as well as one block of six-storey dormitory building and one block of two-storey canteen. Full annual production capacity of the facility is estimated to be approximately 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. According to the development plan approved by the relevant authorities, Mei Zhi Hui has reserved a total gross floor area of 44,234 sq.m for future expansion.

Trial production of Mei Zhi Hui is scheduled to begin in March 2007, with full commercial production expected to commence by 31 July 2007, after the Hygiene

Approval Permit, Production Approval Permit and Business Licence are obtained from the relevant authorities in China.

Evolving into an integrated cosmetics player

Mr Wong Hon Wai, Beauty China's Chairman and Managing Director, said, "This is our first acquisition, since the listing of Beauty China in November 2003. This strategic acquisition is a major step forward in achieving the Group's long term aspiration to become an integrated cosmetics company with its own manufacturing capability. The transaction marks a very significant milestone for Beauty China as we evolve from a pure brand management company to an integrated player with probably one of the very few world-class, GMP-certified facilities in China. With a GMP certification, we believe consumer confidence and loyalty can be further strengthened."

Beauty China's move is timely, in light of the recent efforts by the Chinese government to tighten cosmetic formulation regulations and bring China in line with international regulations.

With the huge growth in the cosmetics and toiletries market, and the recent findings in certain cosmetics products, China's Ministry of Health has instituted new regulations for the production of cosmetics. The regulations, which focus on banning substances that are deemed to be potentially hazardous to human health, are aimed at benchmarking China's cosmetics and toiletries products at international levels. It has been reported that the Guangdong Food and Drug Authority is currently conducting feasibility studies on the possible implementation of the GMP standard in the Chinese cosmetics industry.

Mr Wong said, "The local cosmetics industry is expected to undergo significant realignment and consolidation in view of increasingly stringent quality standards set down by the Chinese authorities. This decision to acquire a manufacturing facility capable of producing a full range of cosmetics products is considered to serve our best interest in the long term, so that the Group would be in a better position to assert quality control on our products and to expand and secure the source of supply. It has been widely envisaged that GMP certification could become a mandatory requirement for Chinese cosmetics manufacturers in the long run."

In addition, having its own manufacturing facility would assist Beauty China in its application for retail licences in the country. This bodes well for the Group as it plans to open not more than 15 image stores in selected major cities in China within the next three years. The Group recently opened its first image store in Shanghai in January 2007.

With regards to the Group's expertise in cosmetics production, Mr Wong added, "We are confident that we have the requisite expertise and experience to operate a full-fledged cosmetics production facility. The factory manager and deputy factory managers of Mei Zhi Hui – both of whom are very experienced in cosmetics production – will remain in the Group after the acquisition. In addition, certain management and staff members of Beauty China also have extensive cosmetics manufacturing experience. I too used to run my own lighting equipment factory for 5 years before moving into the cosmetics industry."

Tapping on new opportunities

The acquisition of the production facility will also add a new dimension and revenue stream to the Group's business.

The Group intends to use the spare capacity of the plant to tap into the growing OEM business, by manufacturing on behalf of third party foreign brands. GMP-certified products can be readily exported to many overseas countries, such as the European Union and ASEAN countries, without going through complicated hygiene clearance procedures.

Exports of cosmetics products from China are estimated to have risen 20% in 2006, testifying that China is rapidly emerging as a world-wide hub for cosmetics production. Industry reports have estimated that the value of cosmetics and toiletry exports could reach US\$630 million in 2006.²

"The business opportunities of the cosmetics industry in China and globally are enormous, and we need to adopt a multi-pronged approach to capture the potential of this market. This is a window of opportunity for us to invest in our future, as well as to

² Source: <http://www.cosmeticsdesign.com/news/printNewsBis.asp?id=73726>

leverage on the noticeable trend of global cosmetics players outsourcing their manufacturing,” Mr Wong explained.

“Ten years ago, Beauty China had the foresight to recognise the potential of the mass cosmetics market in China. We have since successfully reaped the fruits of our investments, gaining a strong edge over our competitors. Now, we believe our acquisition of a GMP-compliant manufacturing facility will once again give us a first-mover advantage, and place us a few steps ahead of other local cosmetics players,” concluded Mr Wong.

Acquisition Details

The Consideration of HK\$293 million is arrived at by applying an approximately 9.2% discount to the fair market value of Fu Teng as at 31 December 2006, amounting to RMB320 million as assessed by an independent valuer. This acquisition will be completed when Mei Zhi Hui starts commercial production.

The Consideration is payable, subject to no breach of any warranty, representation or undertaking on the part of the Vendor, as follows:-

- (1) 20% of the Consideration by cash equivalent to HK\$58.6 million within 30 days from the date of SPA;
- (2) 50% of the Consideration by cash equivalent to approximately HK\$146.5 million upon Mei Zhi Hui having commenced commercial production; and
- (3) 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 upon Mei Zhi Hui having received the GMP certificate. 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.

The cash payments of the Consideration are contemplated to be internally funded by the Company.

Please refer to the SGXNET announcement “Acquisition of 100% Shareholding in Fu Teng International Limited” dated today for more details of the acquisition.

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 industry³ 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. 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 1,200 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 2004, which targets ladies above the age of 25 with relatively higher disposable income and is retailed at more than 140 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 announced plans to acquire a major manufacturing facility for cosmetics products in China, as well as setting up its own research and development centre. These moves will strengthen the Group’s market and brand position, and bring the Group closer to its aim of becoming an integrated cosmetics player.

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³ 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.