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Beauty China posts FY2008 net profit of HK$115.0 million

- *Full year revenue up 21.5% y-o-y to HK$768.5 million*
- *Gross profit margin improved to 64.2% for FY2008, from 62.5% in FY2007*
- *Fourth-quarter results impacted by decline in consumer spending, allowance for impairment of trade receivables and impairment loss on land use rights*

Financial Highlights (HK$'m)	3 months ended 31 Dec			12 months ended 31 Dec		
	4Q FY08	4Q FY07	Growth (%)	FY2008	FY2007	Growth (%)
Revenue	213.7	211.3	+1.1	768.5	632.6	+21.5
Gross Profit	139.0	131.7	+5.6	493.1	395.2	+24.8
Net (Loss)/Profit	(25.8)	39.6	N.M.	115.0	161.9	-28.9
Basic (Loss)/Earnings Per Share (HK cents)	(7.2)	11.5	N.A.	32.5	47.2	-31.1
Fully-diluted (Loss)/Earnings Per Share (HK cents)	(7.2)	11.3	N.A.	32.5	46.7	-30.4

SINGAPORE – 28 February 2009 – Mainboard-listed **Beauty China Holdings Limited** ("Beauty China" or the "Group"), an integrated cosmetics company in the People's Republic of China ("PRC"), today reported a commendable set of results for its full year ended 31 December 2008 ("FY2008"), amidst the global economic downturn.

The Group posted a healthy 21.5% year-on-year increase in FY2008 revenue to HK$768.5 million (S$142.7 million[1]). Gross profit jumped 24.8% to HK$493.1 million

[1] Based on exchange rate of HK$5.38503 = S$1

(S$91.6 million) in FY2008, reflecting an improvement in gross profit margins to 64.2% in FY2008, from 62.5% in the preceding year ("FY2007").

Net profit for the year, however, declined 28.9% to HK$115.0 million (S$21.4 million) as it was impacted by sluggish sales in the fourth quarter, allowance for impairment of trade receivables amounting to HK$42.4 million and an impairment loss on land use rights of HK$16.7 million. This increase in provision for trade receivables, from HK$5.2 million in FY2007, was due to slower repayment from customers as a result of the global financial crisis.

The Group's revenue growth for FY2008 was achieved by its widening retail network for its proprietary brands – Colour Zone and CharmingLady. As at 31 December 2008, the Group had a total of 2,249 points-of-sale ("POS"), a marked increase from its 1,794 POS as at 31 December 2007. In the fourth quarter of FY2008 ("4Q 2008"), the Group added 128 POS.

In spite of the larger retail network, the Group's 4Q 2008 revenue growth was flat at HK$213.7 million, while a net loss of HK$25.8 million was recorded.

The Group's weaker fourth quarter results and fall in FY2008 net profits were the effects of the global economic slowdown, which resulted in a decrease in consumer spending as well as tighter credits. In addition to slower repayments from its distributors, the Group had to grapple with shorter credit terms from its suppliers. The general decline in market value of land in China also brought an impairment loss to the Group's financial statements.

"The fourth quarter was a challenging period for Beauty China. Having said that, we are gratified that our strong performance in the first nine months of 2008 allowed us to achieve record-high sales of HK$768.5 million for the full year. I am also pleased that we managed to cross several milestones during the year, including adding another 455 outlets to our existing distribution network and clinching significant contracts for our Manufacturing Business," said the Group's Chairman and Managing Director, Mr Wong Hon Wai.

Notably, Beauty China's commendable level of sales in FY2008 was achieved by its strategic investment in advertising and promotional ("A&P") activities. A&P costs amounted to HK$169.5 million in FY2008, a 32% increase year-on-year. The higher A&P costs were partly due to the launch of a series of advertising campaigns with Colour Zone's new ambassador, Angela Chang (张韶涵), a well-known artiste and singing diva, as well as the reinforced marketing events to promote the new product image for CharmingLady. The Group also invested in large quantities of private injection moulds for the supply of specialised packaging materials and containers to strengthen the image of its brands.

Overall, Beauty China's FY2008 basic earnings per share was 32.5 HK cents (6.0 Singapore cents). Net asset value per share as at 31 December 2008 was up 35.4% to 227.0 HK cents (42.2 Singapore cents), compared to 172.0 HK cents as at 31 December 2007.

Brand Business Put to the Test

With a net increase of 455 POS in the year, the Group's Brand Business generated a 17.6% year-on-year hike in sales to HK$744.1 million for FY2008, representing 96.8% of total revenue. Gross profit for the Brand Business for FY2008 reached HK$480.7 million, as compared to HK$395.2 million in FY2007, owing to the general decline in costs of raw materials.

However, in 4Q 2008, the Group's Brand Business revenue registered a slight decrease of 2.2% to HK$206.7 million, compared to HK$211.3 million in the previous corresponding quarter, due to tightened consumer spending brought about by the economic downturn.

Of the Brand Business sales, Colour Zone continued to be the major revenue contributor at 87.1%, while CharmingLady contributed the remaining 12.9% for FY2008.

Commenting on the Group's Brand Business, Mr Wong said, "Colour Zone and CharmingLady will carry on to be the mainstay of our business. While the economic climate has been challenging for our Brand Business, we see our active A&P efforts as essential investments to help the Group gain market share. On the tactical front, we will continue to roll out new products and refresh our product range, not only to excite consumers but also to improve our margins."

As at 31 December 2008, there were 1,805 Colour Zone and 444 CharmingLady POS throughout China.

Mr Wong explained, "In view of the current economic situation, we are taking a more prudent stance with regard to capital expenditure and expansion. In addition, the deepening recession has resulted in weaker consumer sentiments, creating an even tougher business environment for the Group. This, however, does not mean that we will stop expanding our distribution network, rather our Group will take a slower and more cautious approach to it."

Manufacturing Business Gaining Traction

Providing a new and growing revenue stream for the Group since 1Q 2008 is its Manufacturing Business for OEM/ODM customers.

Accounting for 3.2% of FY2008 revenue, the Manufacturing Business contributed HK$24.4 million in revenue and enjoyed a steady gross profit margin of 50.8%. Average utilisation (based on one work shift) in 4Q 2008 has reached 56%, an improvement from 51% in the preceding quarter. While it operated at a net loss of HK$0.5 million in 4Q 2008, before the impairment loss on land use rights of HK$16.7 million, the Group aims to have its Manufacturing Business profitable in 2009.

The Group's OEM/ODM service – which provides high GMP-quality products at lower cost compared to developed countries – has slowly but surely been gaining traction. This quarter, it gained a significant foothold when it inked a three-year agreement with major Japanese cosmetics producer JO Cosmetics Co. Ltd. ("JO Cosmetics") to manufacture, use and sell certain finished and semi-finished cosmetics products, under the technical expertise and patents owned by JO Cosmetics.

With the signing of the deal, Beauty China is now JO Cosmetics' first and exclusive manufacturing and distribution partner in the PRC. The Group has also recently completed the construction of a two-storey GMP-compliant powder production plant to manufacture cosmetics powder, using JO Cosmetics' proprietary know-how, for its own brands and OEM customers in the near future.

"Our partnership with JO Cosmetics will benefit Beauty China on several fronts – we can not only leverage JO Cosmetics' network to expand our OEM business to major cosmetics companies and well-known international brands, but also tap on its R&D expertise to improve the quality of our own Colour Zone and CharmingLady brands," said Mr Wong.

He elaborated, "We plan to shift most of the production of our two brands in-house by end of FY2009 to have greater control over our product quality. Even after meeting our internal needs, we have more than sufficient capacity to tap on the OEM/ODM cosmetics market. With the economic slowdown, we hope that international cosmetics brands will outsource more of their production to contract manufacturers like Beauty China who offer cost advantages without compromising on quality."

Looking Ahead

Summarising the outlook going forward, Mr Wong said, "2009 will continue to be a challenging year. The deepening global economic downturn, marked by declining consumer spending and tighter credit controls, poses a difficult operating environment for the Group."

To mitigate the impact of the softening economy, the Group has initiated proactive measures such as tightening cost control and inventory management, and reducing capital expenditure budget. In addition, it aims to improve communications with distributors and other business associates to expedite collections and improve credit control.

"While we recognise that our business environment is becoming more difficult, we believe our products are still attractive to the mass market given their high quality and affordability, especially in this economic downturn. In fact, consumers on an economising drive may shift from buying high-end international cosmetics brands to affordable local quality products. Further, we believe that our collaboration with JO Cosmetics will bring about immense opportunities for the Group," concluded Mr Wong.

About Beauty China

An integrated cosmetics company in Mainland China, Beauty China owns and manages two cosmetics 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[2] 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 approximately 500 SKUs of colour cosmetics and skincare products, Colour Zone products are retailed in 1,805 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[3], the market share of Colour Zone brand reached 3.9% and was ranked No.4 in the colour cosmetics segment of Mainland China in 2007.

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 444 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.

In October 2008, Beauty China was one of the recipients of the SIAS Investors' Choice Award 2008 for "Most Transparent Company Award (Foreign Listings Category)", a prestigious award endorsed and supported by the Singapore Exchange, Standard & Poors, PricewaterhouseCoopers, SID, ICPAS, CFA, Business Times & Asian Corporate Governance Association. Beauty China was selected from nominations received from analysts, fund managers, financial journalists and retail investors represented by SIAS.

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[2] *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.*

[3] *Taken from the report "Cosmetics and Toiletries in China" issued by Euromonitor in June 2008.*