



**Merrill Lynch (Asia Pacific) Limited- NDR**  
**4-5 Oct 2007 and 10 Oct 2007**



## **Results Highlights**



## Highlights of the Period

- ▶ **Net profit surged 50.4% to HK\$ 74.3 million**
- ▶ **Dividend payout ratio reached 135% to HK\$100 million**
- ▶ **Net profit margin increased by 8.2 percentage points to 38.4%**
- ▶ **Fonperi 1,100 retail channels contributed to Taiwan market's top line turn around**



# Financial Summary

Six months ended June 30 Change %

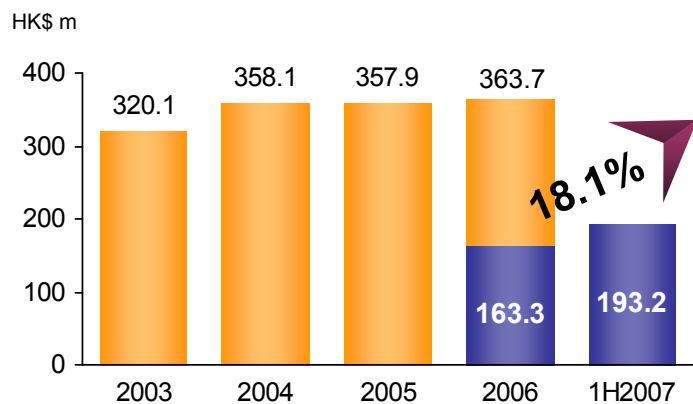
(HK\$ million)	2006	2007	
<b>Turnover</b>	163.6	<b>193.2</b>	<b>+18.1</b>
<b>Gross profit</b>	128.8	<b>161.9</b>	<b>+25.7</b>
<b>Profit before tax</b>	72.8	<b>95.5</b>	<b>+31.1</b>
<b>Net profit</b>	49.4	<b>74.3</b>	<b>+50.4</b>
<b>Interim dividend per share (HK cents)</b>	2.00	<b>5.00</b>	<b>+150</b>
- Basic	1.40	<b>3.00</b>	<b>+114.3</b>
- Special	0.60	<b>2.00</b>	<b>+233.3</b>
<b>Dividend payout* (%)</b>	80.7	<b>134.6</b>	<b>+53.9% pts</b>

\*Dividend payout will remain  $\geq 100\%$  due to disposal of investment property

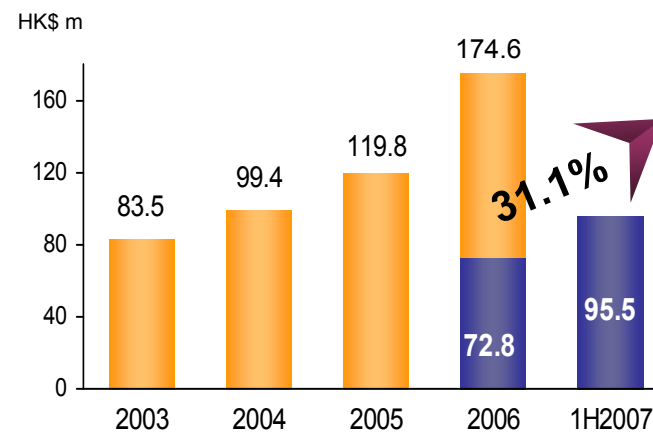


# Strong Financial Performance

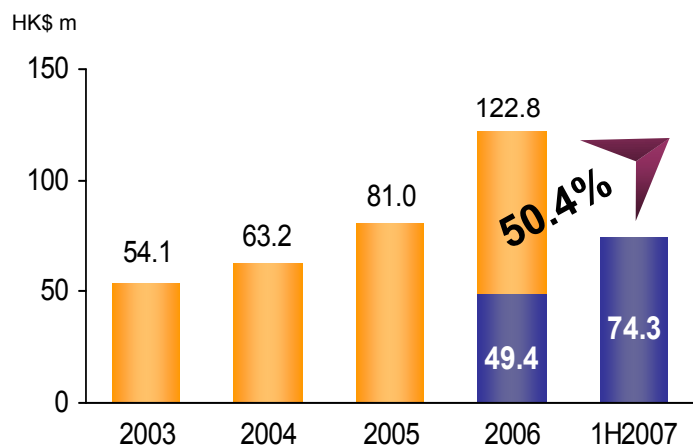
## Turnover



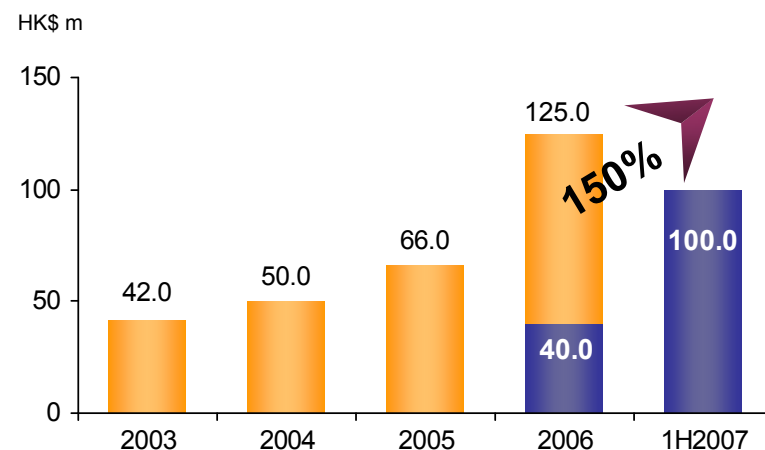
## Operating profit



## Net income



## Dividends





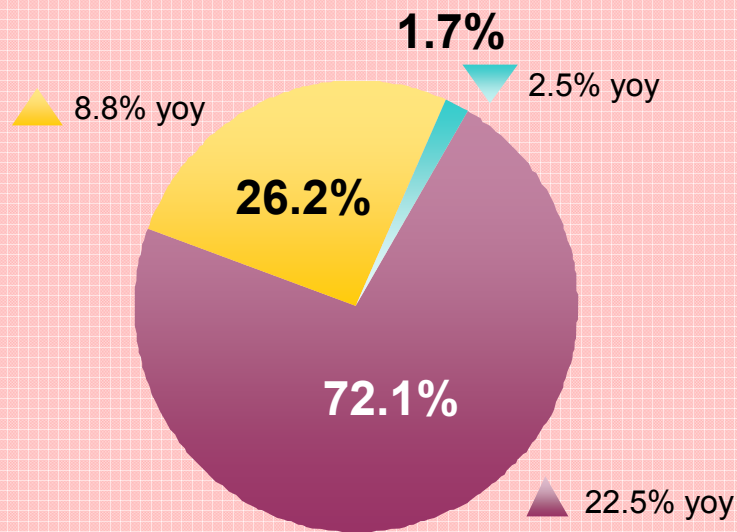
# Enhancing Shareholder's Value

	Six months ended June 30		Change %
(HK\$ million)	2006	2007	
<b>Basic EPS (HK cents)</b>	2.48	<b>3.72</b>	<b>+50.0</b>
<b>ROE (%)</b>	12.2	<b>16.9</b>	<b>+4.7% pts</b>
<b>ROA (%)</b>	10.8	<b>14.3</b>	<b>+3.5% pts</b>
<b>Cash (HK\$ million)</b>	260.0	<b>501.4</b>	<b>+92.8</b>
<b>Gearing ratio</b>	Net cash	<b>Net cash</b>	-



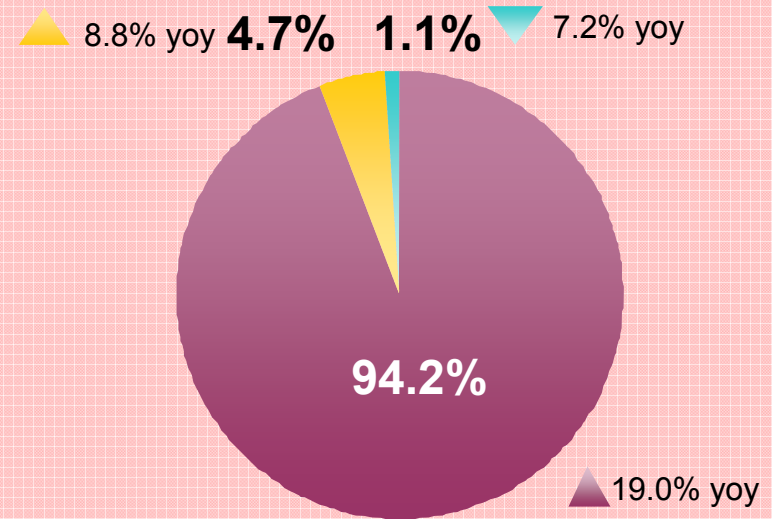
# Turnover Analysis for 1H07

## By Region



- The PRC
- Taiwan
- Others (incl. Hong Kong & Malaysia)

## By Products/ Service



- Product Sales
- Service Income
- Entrustment income



# Average Sales Per Store

► The Group's average sales per store increased by 10.5% yoy to HK\$84,000 in 1H2007 due to:

- Success of the brand revamp program, boosting the average store sales in PRC by 13.9%
- Average store sales in Taiwan registered a 5.7% year-on-year growth from existing spa channel despite a weak economy

## Average Sales Per Store

(HK\$)	1H2006	1H2007	(%)
PRC	72,000	82,000	+13.9
Taiwan	87,000	92,000	+5.7
<b>Group Average</b>	<b>76,000</b>	<b>84,000</b>	<b>+10.5</b>

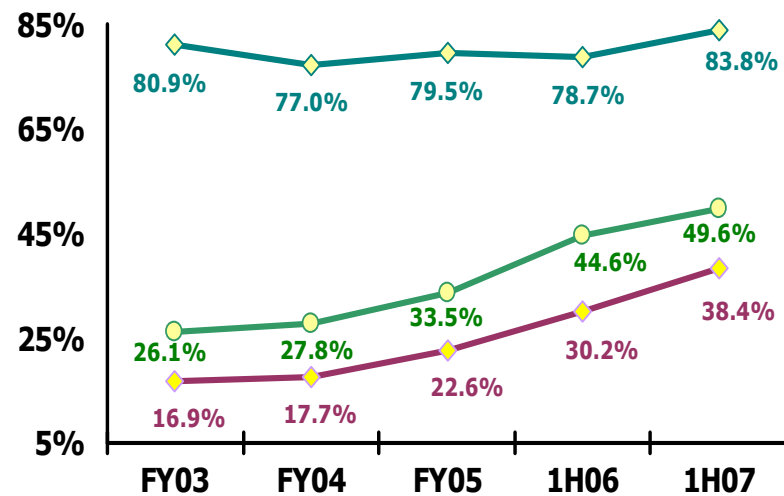




# Sustainable Profitability

- ▶ Gross profit margin surged to 83.8%, representing a yoy growth of 5.1 percentage point
- ▶ Net profit margin further increased by 8.2 percentage point due to the improvement in operating & marketing efficiency
- ▶ Gross margin of products increased by 4.3% to 88.7% for the review period

Group's Margin Analysis



- ◆ Gross profit margin
- Operating profit margin
- ◆ Net profit margin



## **Business Overview**

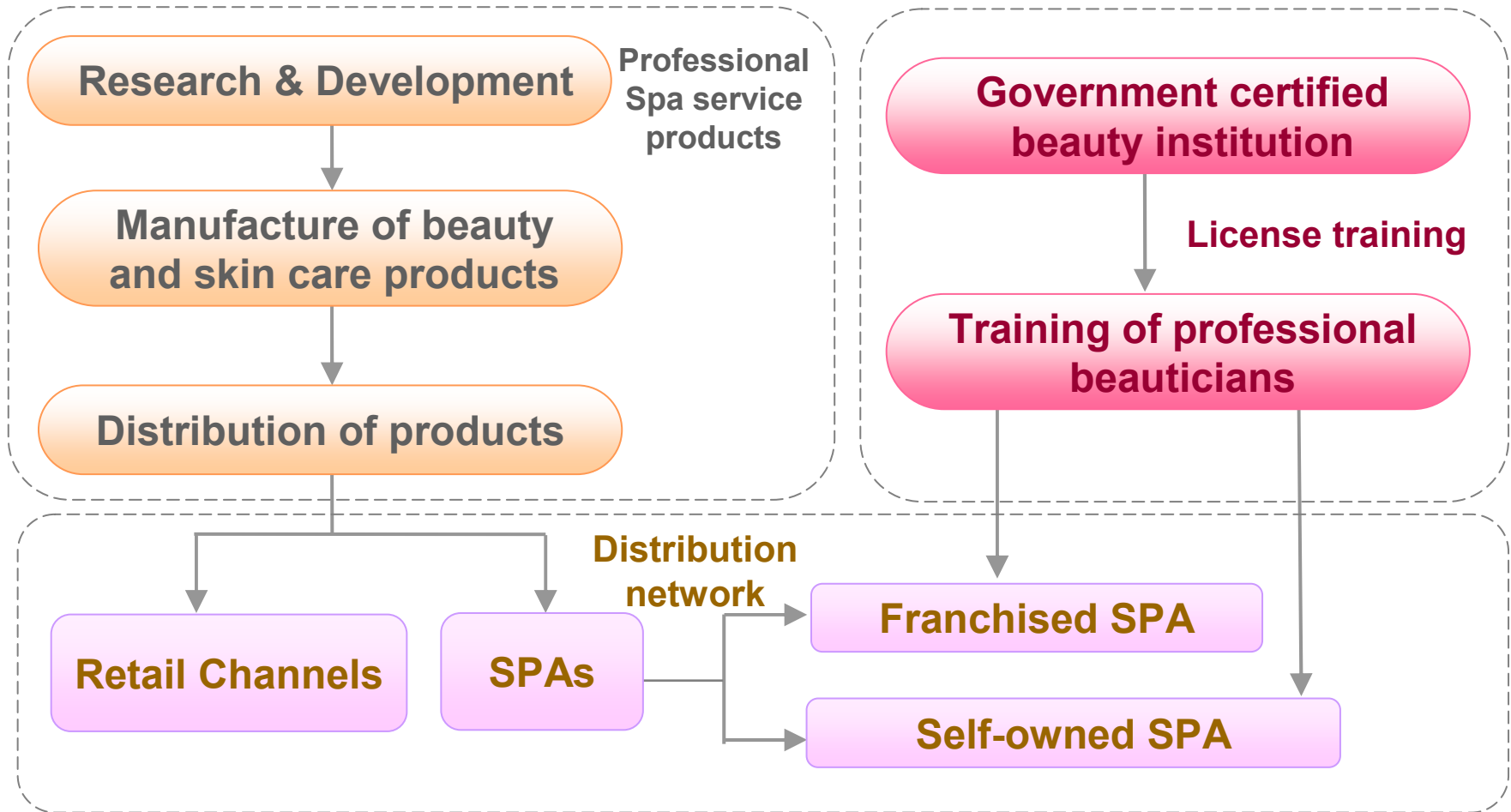


# Corporate Positioning

Leading **Beauty & Spa**  
Professional Service Product  
& Training Provider in Asia



# Core Business





# Extensive Distribution Network in Greater China

As at 30 June 2007

		Franchisee owned Spas	Entrusted Spas	Counters	Self-owned Spas	Counters
<b>The PRC</b>	<b>1,710</b>	1,613	21	19	5	52
<b>Taiwan*</b>	<b>477</b>	468	-	-	9	-
<b>Others</b>	<b>52</b>	-	-	-	1	-
<b>HK Malaysia</b>		51	-	-	-	-
<b>Total</b>	<b>2,239</b>	2,132	21	19	15	52

\*Excluding 1,100 retail distribution outlets



# Nationwide Distribution Network in PRC





## Renowned Brand

- ▶ 2007 Honor and 2006 Silver Winner of the World's Best Annual Report by International ARC Awards, New York
- ▶ 2007 Best Asia Brand Innovation award
- ▶ 2007 Best Asia Brand Innovative Figure award
- ▶ 2006 and 2005 Outstanding Enterprise in Hong Kong
- ▶ 2006 Bronz Winner of Asia Marketing and Promotion Award
- ▶ 2006 Bronz Winner of Best Asia B2B Events Award
- ▶ 2006 Best Asia Interactive Media Application Award
- ▶ 2005 Top 10 most influential beauty brands in China
- ▶ 2005 Top 10 most influential beauty franchised salons in China
- ▶ 2005 Golin Awards in Corporate Branding / Reputation Management
- ▶ 2005 Best Franchisee Network in China (with the highest consumer recognition rate of 49.7% by 2005 China Beauty Economy Annual Report)
- ▶ 2005 London International Advertising Award
- ▶ 2005 New York Global Longshi Advertising Award
- ▶ 2005 6 Honors for Corporate Identity Design by Hong Kong Designer Award
- ▶ 2005 8 Honors by Asia Times Advertising Creative Award
- ▶ 2005 Asia Pacific Interior Design Award for Central SPA



# Strong Profitability in the PRC

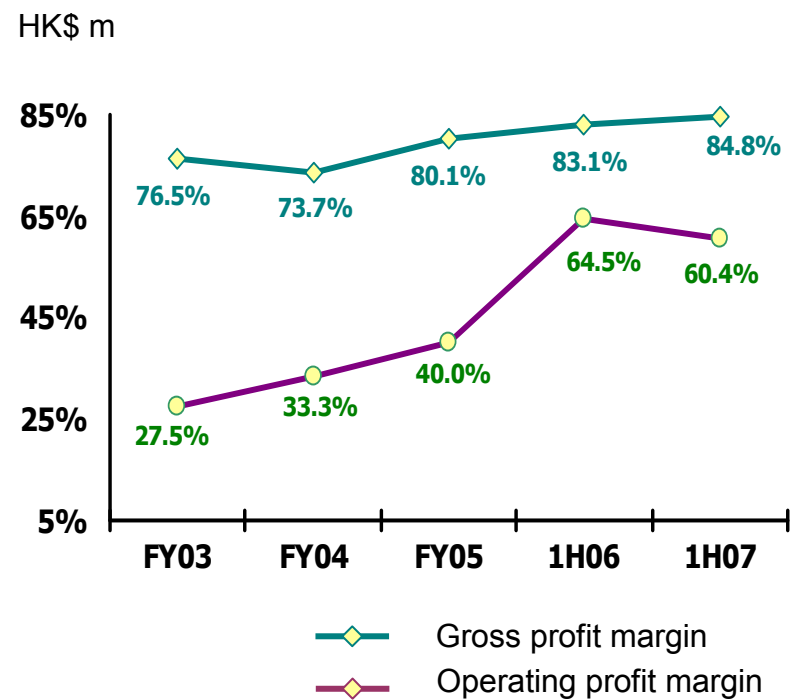
► **Product sales increased by 22.5% to HK\$133.0 million**

- Gross margin of product sales grew from 87.0% to 88.2%
- Benefited from the robust China economic growth
- Brand revamping program began to bear fruitful returns

► **PRC's net profit surged 32.3% to reach HK\$70.6 million**

- Operating profit before tax increased by 14.6% to HK\$84.1 million
- Entrustment strategy enhanced cost-efficiency
- Received tax refund of HK\$19.7 million

Margin Analysis for PRC

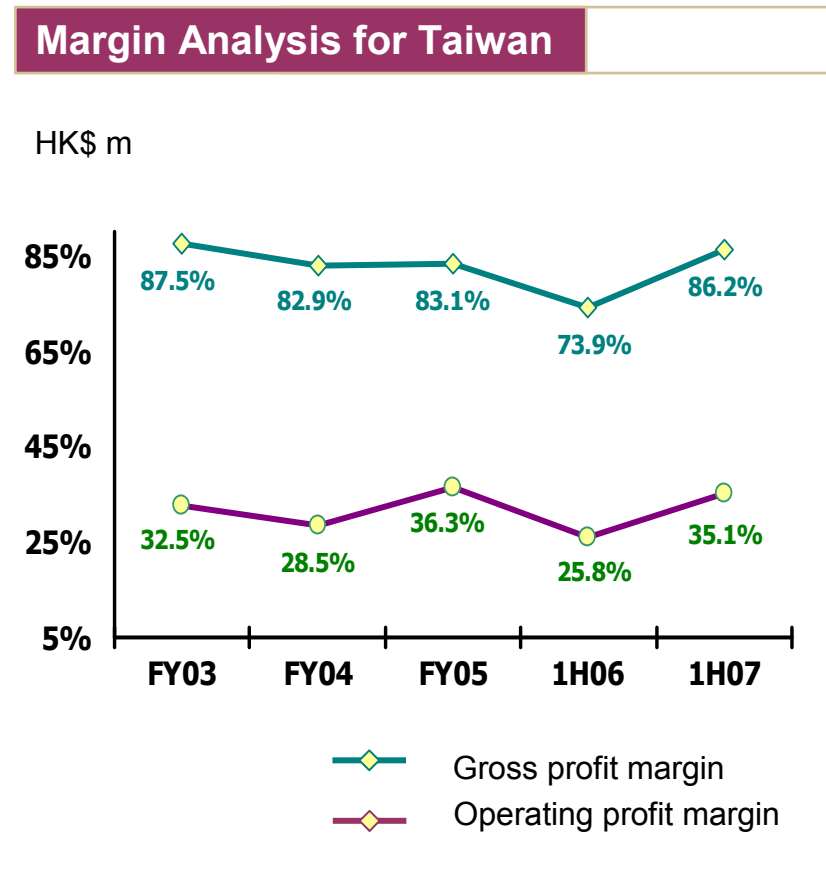






# Improved Profitability in Taiwan

- ▶ **Product sales increased by 10.8% despite economic recession, which was mainly attributable to:**
  - HK\$5.4 million product sales from the newly launched retail brand “Fonperi”
- ▶ **Net profit in Taiwan market registered a 64.3% y-o-y growth :**
  - Operating profit before tax surged 48.3% to reach HK\$17.7 million
  - Commenced revamp exercise contributed positively to performance





## New Retail Brand “Fonperi” to Capture New Market

- ▶ Retail brand “Fonperi” was newly launched last April in Taiwan market
- ▶ Captured the growing segment of the medium price retail skin-care market
- ▶ Sold via retail channel like hypermarkets, drugstores as well as wholesalers
- ▶ Over 1,100 outlets merchandised the “Fonperi” products, more than 116,000 units sold with a turnover of HK\$5.4 million since launch
- ▶ May be introduced to PRC market in the future



# Growth Drivers Summary

## ▶ Improve Same Store Sales

- Revamp brand, website and shop image (1,646 stores)
- Continued to repackage products to reduce costs and improve profit margin (314 products repackaged)

## ▶ New Products

- Launched synergetic products such as Fonperi brand (1H 2007: 44 new products)
- Over 62,000 sets/ bottles of NB-1 family products were sold, with a turnover of HK\$48.4 million

## ▶ Expand Distribution Channels

- Opened 74 stores in 1H2007
- Expanded local distributions, e.g. hypermarket, cosmetic drugstores and wholesalers in Taiwan

## ▶ Professional Management Team

- Recruited new COO, head of sales and head of marketing for PRC and Taiwan



## **Competitive Analysis & Industry Outlooks**



# Cosmetic Industry Overview

- ▶ Sales of cosmetics and toiletries grew by nearly 11% in current value terms in 2005 to reach RMB85 billion (Euromonitor, 2006)
- ▶ Growth over the forecast period is expected to be less strong at 12%, reaching RMB51.7 billion by 2010 (Euromonitor, 2006)
- ▶ Surveys have indicated that 37 percent of urban Chinese women buy skincare and beauty products
- ▶ The 18 to 30 age group makes up 77 percent of consumers (Annual Report on Beauty Economy, 2005)



# Retail Competition

(consumer recognition rate/Market shares 2005):

**a crowd market with 3000+ brands**

## **High end department store brands:**

SKII (42.2%/1.8%), Lancome (32.5%/1.5%), Shisedo (27.8%/1.1%),  
Estee Lauder (19.1%/0.8%)

## **Mass hypermarket brands:**

Olay (36.6%/15.7%), L'Oreal (30.4%/3.5%),  
Clean & Clear – Johnson & Johnson (7.6%/1.3%)  
Garnier Mini Nurse (15.7%/2.1%), Pone's (11.9%/3.8%)

## **Direct selling:**

Artistry – Amway (7.2%/10.2%), Avon (27.8%/6.8%), Mary Kay (6.1%/4.5%)

## **Cosmetic drugstores:**

Aupres (15.5%/5.8%), Dabao (13.5%/3.6%)

Source: Annual Report on Beauty Economy, 2005; Euromonitor, 2006



# Beauty Service Industry Overview

- ▶ According to 2005 Annual Report on Beauty Economy in China, there are 1.54 million beauty & hair salons in China, creating 12 million employment opportunities
- ▶ For every 1% GDP growth, beauty service consumers increase 0.56% (Annual Report on Beauty Economy in China, 2005)



## **Beauty industry competition (consumer recognition rate):**

### **Franchisee Spa:**

Natural Beauty (49.7%) –professional service product provider with a network size of 2,429 franchisee Spa/outlets (HK:157) and manufacturing plants. Others being service provider e.g. Shyenli (17.4%), beauty farm (9.4%).

### **Individual beauty salon:**

Illegal parallel importing

### **Hotel Spa:**

Banyan Tree, Mandara, Four Seasons (NB consultancy)

Source: Annual Report on Beauty Economy, 2005





# Service Consumer Spending Pattern

- ▶ Independent survey indicates that half of the respondents in China and 59% in Taiwan visit beauty salons.
- ▶ 35% in China and 33% in Taiwan visit salons once a month or more often. Top reasons being product quality, services offered and prices
- ▶ About half in China and 61% in Taiwan spend less than RMB350/NT1,500 per month on salon services, though 28% in China and 41% in Taiwan spend at least that amount per salon visit.
- ▶ 59% plan to spend between RMB200 to 1000/ NT1,500 to 5,000 on skin care products each month.
- ▶ Net favorable opinion of Natural Beauty in both China and Taiwan is strongest in the 36-45 and 26-35 age groups for its product quality, professionalism and ambience.
- ▶ 50% in China and 41% in Taiwan plan to visit a Natural Beauty salon within the next 12 months



**Q&A**