

[Reference]

Shiseido to Launch New *DQ* Brand for Drugstores in China
—Sales Channel Expansion that Follows Department Stores
and Cosmetics Specialty Stores—

As part of its business expansion initiatives in China, from March 2010 Shiseido will launch the new *DQ* brand from Shiseido China Co., Ltd. for the drugstore handling both medicine and cosmetics channel. Sales of Shiseido's cosmetics products in China are currently conducted mainly in department stores and cosmetic specialty stores; however, Shiseido will further expand points of contact with customers by designating the new drugstore channel as the third sales channel pillar for Shiseido's China business. In addition to Shanghai, Beijing and Guangzhou cities, the new brand will be handled in other major cities in coastal and inland areas, in which plans call for introducing approximately 600 stores in the first year and consecutively expanding areas and handling stores.

Additionally, Shinzo Maeda, President & CEO participated in a press conference for the launch of the new brand held on December 17, 2009 in Shanghai.

Background of *DQ* Launch and Entering Drugstore Channel

Shiseido's China business has thus far expanded by designating department stores and cosmetic specialty stores as the two pillars of its business expansion channel. At the same time, drugstores in urban areas selling herbal medicines and pharmaceuticals began the handling of imported cosmetics from around the end of the 1990s and started to emerge as the new sales channel in the cosmetics market. Although the channel currently comprises roughly 10% of the market, it is continuously achieving double-digit growth and is expected to grow further in the future.

Women who purchase cosmetics via the drugstore channel are highly conscious about skin concerns, whereby they are placing high expectations toward the drugstore channel in terms of finding methods of scientifically solving skin troubles with a sense of assurance. To this end, Shiseido decided to develop and launch the *DQ* brand that realizes healthy skin with less likeliness of causing skin troubles by utilizing Shiseido's R&D capabilities, which have been achieved through continuously studying Asian women, including Chinese and Japanese women.

DQ Brand Overview

The new *DQ* brand targets women who are concerned about chronic skin troubles as well as those who are unsatisfied with the skincare effects of conventional cosmetic products, whereby realizes healthy skin with less likeliness of causing skin troubles while enabling the user to feel the skincare efficacies. While objectively gaining an understanding of customers' skin conditions attained through proprietary skin information based on the accumulation of many years of research, tranexamic acid, an active ingredient for rough skin, has also been included to work at the origin of skin troubles to give a feeling of effective penetration. The *DQ* brand name is derived from the initials of the term Dermal Quotient.

The *DQ Control* line for daily skincare and the *Skin Trouble Care* line will be introduced comprising 25 items (excluding cotton pads) at the price range of RMB160~RMB360 (approx. ¥2,080~¥4,680; calculated based on the exchange rate RMB 1= ¥13)

<DQ Control>

Product Name	Volume	Price	Product Features
Lotion I・II	170ml	RMB220 (¥2,860)	Highly penetrating lotion that quickly absorbs into skin and smoothes rough skin (Two types: Refreshing and Moisture-rich)
Lotion (Refill) I・II		RMB198 (¥2,574)	
Emulsion I・II	130ml	RMB250 (¥3,250)	Gentle emulsion that softens skin with no sticky residue (Two types: Refreshing and Moisture-rich)
Emulsion (Refill) I・II		RMB225 (¥2,925)	
Cream	50g	RMB320 (¥4,160)	Cream that helps to create dewy and resilient skin by wrapping skin in lasting protective moisture
Cleansing Foam	120g	RMB160 (¥2,080)	Cleansing foam with a resilient texture that adheres to the skin to thoroughly remove dirt and sebum
UV Protector	50ml	RMB250 (¥3,250)	Sun care that refreshingly glides onto skin and balances a light, non-coating texture with high UV protection
Whitening Lotion I・II	170ml	RMB290 (¥3,770)	Highly penetrating lotion with whitening effect that quickly absorbs into skin and smoothes rough skin (Two types: Refreshing and Moisture-rich)
Whitening Lotion (Refill) I・II		RMB261 (¥3,393)	

Whitening Emulsion I • II	130ml	RMB320 (¥4,160)	Gentle emulsion with whitening effect that softens skin with no sticky residue (Two types: Refreshing and Moisture-rich)
Whitening Emulsion (Refill) I • II		RMB288 (¥3,744)	
Whitening Cream	50g	RMB360 (¥4,680)	Cream with whitening effect that wraps skin in a light, dewy texture for a resilient complexion

<Skin Trouble Care >

Product Name	Volume	Price	Product Features
Acne Essence	30ml	RMB320 (¥4,160)	Essence that prevents worsening of acne
Reset Cleanse	130ml	RMB210 (¥2,730)	Cleansing lotion that thoroughly exfoliates dead skin cells
Refinishing Essence	30g	RMB320 (¥4,160)	Essence that refreshes skin and tightens pores
Eye Cream	30g	RMB320 (¥4,160)	Eye cream that smoothes and firms for a resilient eye contour
Whitening Mask	7 packs	RMB320 (¥4,160)	Mask for targeted facial areas for concentrated whitening of spots and acne scars



DQ Control line (left) and Skin Trouble Care line



Sales counter image

Reference

Shiseido in China

Shiseido began business operations in China in 1981 and thereafter established Shiseido Liyuan Cosmetics Co., Ltd. (hereafter “SLC”), as a joint venture company in Beijing along with a cooperative company, Shanghai Zotos Citic Cosmetics Co., Ltd. (hereafter “SZC”), in 1991 and 1998, respectively.

SLC commenced manufacturing and sales of the *AUPRES* brand exclusively for the China market in 1994 and the brand has since grown into a truly national brand, as evidenced by receiving approval to become the official cosmetic products for Chinese athletes participating in the Sydney and Athens Olympics in 2000 and 2004, respectively. The *AUPRES* brand was significantly revamped in 2008, and a series of anti-aging and whitening items was developed, which is currently being used by many loyal customers together with the *SUPREME AUPRES* prestige line.

SZC is a dedicated production facility as a result of transferring its marketing and sales departments to Shiseido China Co., Ltd. (hereafter “SCH”) in 2005. In addition to the *URARA* brand, exclusively for Shiseido cosmetics specialty stores, SZC produces other products for the *Za*, *UNO* and *AquaLabel* brands.

In order to provide full support to the existing and new businesses, SCH was established in December 2003 in Shanghai as a holding company for China business, thereby commencing sales of luxury cosmetics brand *Clé de Peau BEAUTÉ* and conducting import and sales of the global brand *SHISEIDO*, which is sold in 73 countries worldwide.

Additionally, initiatives are currently underway to develop Shiseido cosmetic specialty stores that utilize the know how of the chainstore system accumulated in Japan, which commenced sales in March 2004 through chainstore contracts with individual cosmetic stores. As of the end of December 2009, contracted stores are expected to exceed 4,500.

Furthermore, in terms of an R&D perspective, Shiseido established Shiseido China Research Center Co., Ltd. in 2001 to conduct research into traditional Chinese medicines in promoting the development of cosmetic products for the Chinese and overseas markets.

Shiseido's Main Sales Channels in China

*Brands indicated in **bold** are locally manufactured products.

	Channel	Business Overview and Product Lines
Prestige	Upscale department stores	Global brand <i>SHISEIDO</i> sold worldwide, <i>Clé de Peau BEAUTÉ</i> , locally manufactured prestige cosmetics <i>SUPREME AUPRES</i> and <i>AUPRES</i> are respectively sold at individual sales counters.
Cosmetic Specialty Stores	Shiseido Cosmetic Specialty Stores (chainstore contract stores)	<p>Cosmetics specialty stores that are developed by concluding a contract with each privately-managed cosmetic store by utilizing Shiseido's know how accumulated in Japan.</p> <p>Sell products that are not handled in department stores and stores have expanded to approximately 4,300 as of September 2009. <i>URARA</i> brand, <i>PURE&MILD</i>, <i>UNO</i>, <i>Elixir Supérieur</i>, <i>MELANOREDUCE (HAKU)</i>, <i>TSUBAKI</i>, etc.</p>
Middle mass	Department stores	Sell <i>Za</i> , <i>AquaLabel</i> , <i>PURE&MILD</i> , <i>UNO</i> and other brands at separate sales counters from prestige cosmetics products.
	General merchandising stores, supermarkets and convenience stores	<i>Za</i> , <i>UNO</i> , <i>AQUAIR</i> , <i>TSUBAKI</i> , etc.
	General merchandising and cosmetic specialty stores via wholesalers	<i>Za</i> , <i>PURE&MILD</i> , etc.