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Beauty China shows resilience with 3Q08 net profit rising 18.6% to HK\$61.9 million

- *Growth boosted by widening retail network and expanding third-party Manufacturing Business*
- *Gross profit margin for its Brand Business improved to 65.1%*

Financial Highlights (HK\$'m)	3 months ended 30 September			9 months ended 30 September		
	2008	2007	Change (%)	2008	2007	Change (%)
Revenue	245.6	188.0	+ 30.7	554.8	421.3	+ 31.7
Gross Profit	158.6	117.0	+ 35.5	354.1	263.5	+ 34.4
Net Profit	61.9	52.2	+ 18.6	140.9	122.3	+ 15.2
Basic EPS (HK cents)	17.4	15.3	+ 13.7	39.9	35.7	+ 11.8
Fully-diluted EPS (HK cents)	N.A.	15.1	N.A.	39.7	35.3	+ 12.5

SINGAPORE – 13 November 2008 – Reflecting the resilience of its business model, **Beauty China Holdings Limited** (“Beauty China” or the “Group”), an integrated cosmetics company in the PRC, today reported yet another set of robust results for its third quarter ended 30 September 2008 (“3Q 2008”).

The Group posted a healthy 18.6% increase in 3Q 2008 net profit to HK\$61.9 million (S\$11.4 million¹), on a 30.7% surge in revenue to HK\$245.6 million (S\$45.3 million).

The Group achieved this by widening its retail network for its proprietary brands – Colour Zone and CharmingLady – to 1,729 and 392 points-of-sale (“POS”), respectively. During the quarter under review, the Group’s logistics and deliveries were

¹ Based on exchange rate of HK\$5.42195 = S\$1

affected by traffic restrictions imposed because of the Olympics. This led to the Group's retail network expanding at a slower rate than the management anticipated.

The Group's emerging Manufacturing Business segment – which started contributing to overall revenue since 1Q 2008 – demonstrated rapid growth on a quarter-to-quarter basis, surging 65.6% from HK\$5.2 million in 2Q 2008, to HK\$8.6 million in 3Q 2008.

“Once again, Beauty China has proven our ability to grow our business, even in a challenging operating environment. In spite of rising overheads and raw material costs, the gross profit margin for our Brand Business grew 2.8 percentage points to 65.1% because we tactically introduced new products with higher selling prices in 2Q 2008,” said the Group's Chairman and Managing Director, Mr Wong Hon Wai.

Notably, Beauty China's commendable level of profitability was achieved despite the Group investing heavily in advertising and promotional (“A&P”) activities. Distribution costs, of which A&P comprises the major portion, amounted to HK\$83.1 million, a 42.1% 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 rise in distribution costs was also in line with the Group's extension of its retail network, as well as expansion of its sales and marketing team for the Manufacturing Business.

Overall, the latest 3Q 2008 results pushed Beauty China's basic earnings per share to 17.4 HK cents (3.2 Singapore cents), versus 15.3 HK cents in the corresponding period last year. Net asset value per share as at 30 September 2008 was up 34.0% to 230.5 HK cents (42.5 Singapore cents), compared to 172.0 HK cents as at 31 December 2007.

Brand Business Still Looking Pretty

With a net increase of 120 POS in the third quarter, the Group's Brand Business generated a 26.1% year-on-year hike in sales to HK\$237.0 million, representing 96.5% of total 3Q 2008 revenue.

Of the Brand Business sales, Colour Zone continued to be the major revenue contributor at 87.8%, while CharmingLady contributed the remaining 12.2%.

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

The Group is on track to reach its target of 1,800 Colour Zone and 450 CharmingLady POS by the end of FY2008.

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 3.5% of 3Q 2008 revenue, the Manufacturing Business enjoyed a steady gross profit margin of 51.0%, consistent with 2Q 2008. It experienced an operating loss of HK\$0.5 million for the reporting quarter, but actually broke even in the month of September 2008 alone.

Average utilisation (based on one work shift) improved to 51%, versus 39% in the preceding quarter. By the end of the year, the Group aims to reach more than 60% utilisation (based on one work shift).

The Group's OEM/ODM service – which provides high GMP-quality products at lower cost – is slowly but surely gaining traction. It has on hand more than HK\$50 million worth of new OEM contracts, mostly to be delivered in FY2009, of which HK\$47

million are from two customers in Russia and France² to manufacture approximately 21 million skin-care, colour cosmetics and fragrance products for five popular mid-range cosmetics brands in these two countries.

Mr Wong elaborated, “With increasing bad press on the quality of China-made products, we are gratified that we make the right move in purchasing our GMP-certified cosmetics factory. We plan to shift the production of our two brands in-house by next year – to have greater control over our product quality as well as capture the processing margins that our third-party manufacturers currently enjoy.”

“Even after meeting our internal needs, we have more than sufficient capacity to tap on the expanding OEM/ODM cosmetics market. Indeed, with the recent economic slowdown, we anticipate that international cosmetics brands may step up efforts to outsource their production to contract manufacturers like Beauty China who offer cost advantages without compromising on quality,” he explained.

Confidence in Beauty

Summarising the outlook going forward, Mr Wong said, “Beauty China enters the seasonally higher fourth quarter from a position of strength. The cosmetics sector in the PRC has not slowed down, and we have good reason to be positive about the coming quarter.”

“Even with the economic downturn, our products are still attractive to the mass market given their affordability. In fact, consumers going on an austerity drive may shift from buying high-end international cosmetics brands to affordable local quality products,” added Mr Wong.

While the current financial crisis has posed credit problems for many companies, Beauty China remains financially sound with net cash of HK\$127.8 million and low gearing ratio at 12.9% as at 30 September 2008. The Group has sufficient financial resources and liquidity to meet its working capital requirement, and also has not experienced any significant problems in debt collection or obtaining external financing.

² The names of customers and brands cannot be disclosed due to confidentiality agreements signed with the customers.

“While we recognise that our business environment is undergoing changes and new challenges, we are not slowing down our growth plans as we still see immense opportunities for the company. We will continue to exercise prudent capital management, as we always have,” concluded Mr Wong.

Barring any unforeseen circumstances, the Directors remain cautiously optimistic of the Group’s performance in the next 12 months.

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 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 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 1,729 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 Euromonitor⁴, 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 392 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

³In 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.

⁴Taken from the report “Cosmetics and Toiletries in China” issued by Euromonitor in June 2008.

nominations received from analysts, fund managers, financial journalists and retail investors represented by SIAS.

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