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Beauty China's 1Q net profit rises 21.1% as retail network expands

- » *1Q net profit up 21.1% to HK\$27.2M as revenue surge 31.9% to HK\$87.2M*
- » *Added more than 60 Colour Zone and 10 CharmingLady retail outlets in the first 3 months of FY2006*
- » *Colour Zone awarded one of China's "2005 Top 10 Best Selling Brands" of colour cosmetics in April 2006*

SINGAPORE – 11 May 2006 – Mainboard-listed **Beauty China Holdings Limited** ("Beauty China" or "The Group"), a brand management company that owns and manages the *Colour Zone* and *CharmingLady* brands of colour cosmetics and skincare products catering to the mass market in Mainland China, today announced a 21.1% surge in net profit to HK\$27.2 million (S\$5.7 million¹) for the first quarter of FY2006 ended 31 March 2006.

Against the backdrop of an expanding network of *Colour Zone* and *CharmingLady* retail outlets in Mainland China to more than 960 and 70 respectively as at 31 March 2006, Beauty China achieved an impressive 31.9% surge in revenue to HK\$87.2 million (S\$18.2 million). Beauty China's retail network also includes 23 Walmart and 42 Watson's stores in Mainland China, as well as 40 Sa Sa stores in Hong Kong and Macau.

The Group maintained a relatively stable gross profit margin of 63.7% during the first quarter of FY2006 compared to 63.3% a year ago and 64.1% in 4Q2005. Going forward, Beauty China concedes that the recent escalation of raw material prices due to the impact of soaring oil prices will inevitably exert pressure on the costs of sales and logistics amongst most players in the cosmetics industry.

¹ Based on exchange rate of HK\$4.7988 = S\$1

Based on Beauty China's latest first quarter performance, basic earnings per ordinary share (based on the weighted average issued share capital of 342,360,620 shares) increased from 6.5 HK cents (1.4 Singapore cents) to 7.9 HK cents (1.7 Singapore cents). Taking in the effect of dilution, earnings per ordinary share for the quarter ended 31 March 2006 was 7.7 HK cents (1.6 Singapore cents) based on a fully-diluted basis of 352,760,620 shares. The Group's net asset value per ordinary share grew from 93.8 HK cents (19.5 Singapore cents) to 102.2 HK cents (21.3 Singapore cents) in the first 3 months of FY2006.

Commenting on the results, Mr Wong Hon Wai, Beauty China's Chairman and Managing Director said, "We are pleased with our continued growth, especially *Colour Zone*'s achievement in China's highly competitive market. Just recently, 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 by China General Chamber of Commerce and China National Commercial Information Centre. This is quite a remarkable achievement, particularly when competition amongst foreign and local players in China is getting quite intense."

The Group's flagship *Colour Zone* brand has just received approval from the relevant authorities in Mainland China for its new ranges of colour cosmetics and skincare products with sun-protection properties which will be launched later this month throughout the country.

"The Chinese increasingly pay particular attention to skin appearance, and cosmetics products such as sunscreen, whitening and anti-ageing products are gaining popularity. This trend is not peculiar to China – women all over the world are particularly aware of the damaging effects of the sun," Mr Wong added.

The Group is fully committed to focusing its efforts on branding and promoting consumer loyalty, which are its key critical success factors in growing market share in China. Most recently in March 2006, Joey Yung (容祖儿), a popular female artiste in the Greater China region, was appointed as the brand ambassador of *CharmingLady* in Mainland China, adding on to its current stable of brand spokespersons – Coco Jiang, *CharmingLady*'s ambassador in Mainland China, Hong Kong and Macau since 2005, and the popular pop duo Twins who have been *Colour Zone*'s ambassadors since 2004 in Mainland China, Hong Kong and Macau.

In addition, Beauty China continues to expand its product range through innovative product development and quality improvement. The Group plans to set up its own research and development (“R&D”) centre in China later this year with the help of an experienced Japanese cosmetics R&D firm as its consultant.

On 1 April 2006, the Chinese Government introduced a reform on consumption tax to be levied on “high-end” skincare products in Mainland China. However, the impact on the cosmetics industry is still unclear until China’s Ministry of Finance clarifies the definition of “high-end” skincare products.

“Facing the possible challenges of the consumption tax reform as well as the raw material price pressure, we will closely monitor our major competitors’ reactions and will take appropriate measures to resolve the issues. Barring any unforeseen circumstances, the Directors remain optimistic of the Group’s performance in the next 12 months. We are on track to achieving our target of 1,200 *Colour Zone* and 150 *CharmingLady* outlets in Mainland China by the end of FY2006,” Mr Wong said.

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 industry² 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.

With more than 600 varieties of individual end-products, Colour Zone products are retailed in over 960 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 has also 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 70 department store counters separated from Colour Zone’s in Mainland China.

As Beauty China focuses on brand management, it concentrates on design and development of products, demand creation and production management. Other non-core activities, such as inventory management, production and product distribution, are outsourced to third parties.

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.

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.

To create demand on end-products, Beauty China promotes its brands principally via print media and television commercial on a nationwide basis. Celebrities are appointed as its brands' ambassadors to further enhance brand awareness.

To maintain quality of Colour Zone and CharmingLady products, Beauty China sources the imported materials used in the manufacture of final products on behalf of its customers, and selects suitable factories in China to produce the finished goods based on a set of selection criteria. Beauty China also conducts quality checks on incoming materials and final products at the approved processing factories, as well as at its customers' outlets.

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