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Beauty China chalks up record 3Q net profit, rising 21.3% y-o-y to HK\$41.6 million

Financial Highlights (HK\$ million)	3 months ended 30 September			9 months ended 30 September		
	2006	2005	Growth (%)	2006	2005	Growth (%)
Revenue	140.1	106.1	+ 32.1	315.8	235.0	+ 34.4
Gross Profit	87.4	67.2	+ 30.1	198.4	148.2	+ 33.9
Net Profit	41.6	34.3	+ 21.3	95.5	77.2	+ 23.7
Basic EPS (HK cents)	12.2	10.0	+ 21.3	27.9	22.5	+ 23.7

SINGAPORE – 9 November 2006 – Mainboard-listed **Beauty China Holdings Limited** 妍华控股有限公司 (“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 21.3% growth in net profit to HK\$41.6 million for the third quarter of FY2006 ended 30 September 2006 (“3Q 2006”), the highest quarterly profit since listing.

This was achieved on the back of a strong growth in its distribution network in Mainland China which saw the number of *Colour Zone* retail outlets surge from 840 (as at 30 September 2005) to more than 1,110 (as at 30 September 2006), with Group revenue rising 32.1% to HK\$140.1 million.

Its retail network for *Colour Zone* also includes 53 Watson’s stores in Mainland China, as well as 35 Sa Sa stores in Hong Kong and Macau. In addition, the Group has more than 110 department store counters in Mainland China retailing its *CharmingLady* products.

On a nine-month basis, the Group achieved a 23.7% gain in net profit to HK\$95.5 million, whilst sales grew by 34.4% to HK\$315.8 million.

Commenting on the Group's financial performance, Mr Sam Wong, Beauty China's Chairman and Managing Director, said, "We are pleased with our Group's performance. Between July to September this year, we added more than 70 *Colour Zone* outlets and 30 *CharmingLady* counters. In spite of higher material costs, we were still able to keep our gross profit margin above 60%."

The Group achieved a gross profit margin of 62.4% which was marginally lower than the 63.3% achieved in the same quarter a year ago. In 2Q 2006, the Group registered a gross profit margin of 62.6%.

"With the recent retreat of crude oil prices, we expect margins to improve. However, we will continually look for ways to extract more efficiency from packaging, as well as roll out more products so as to improve our yield," Mr Wong added.

Based on the Group's latest nine months results, basic earnings per share (based on the weighted average number of 342,360,000 shares) rose from 22.5 HK cents to 27.9 HK cents whilst on a fully diluted basis of 352,760,000 shares, earnings per share was 27.1 HK cents. The Group's net asset value per ordinary share increased from 93.8 HK cents to 114.2 HK cents as at 30 September 2006.

Going forward, Beauty China will continue to focus on expanding its retail network and is on track to achieving its target of 1,200 *Colour Zone* and 150 *CharmingLady* outlets in Mainland China by the end of FY2006. The Group also remains highly focused on building its two mass-market brands, as well as product research and development ("R&D"). Its plans to set up an R&D centre in China later this year is on track.

Business Prospects

China's Ministry of Finance has not announced its definition of "high-end" skincare products, on which it intends to levy a 30% consumption tax (from the earlier 8%), from 1 April 2006 on a retrospective basis. The industry is currently waiting for the Chinese authorities to provide more clarification on this matter.

“We will wait for the Ministry of Finance to shed more light on this definition, and formulate appropriate strategies accordingly, if required. In any case, under our current business model, Beauty China does not bear the cost of consumption tax. Hence, we do not expect this ruling to have a significant impact on our business. Barring any unforeseen circumstances, the Directors remain optimistic of the Group's performance in the next 12 months,” 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 industry¹ 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 1,100 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 110 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.

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 finished 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 finished products at the approved processing factories, as well as at its customers' outlets.

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¹ 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.