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Pretty FY2005 results for Beauty China as net profit soars 24% to HK\$110M

- *Group revenue up 32% to HK\$347M as the number of its Colour Zone retail outlets in Mainland China rises to more than 900*
- *Plans to reach 1200 Colour Zone and 150 CharmingLady outlets by the end of FY2006*

SINGAPORE – 27 February 2006 – Mainboard-listed **Beauty China Holdings Limited** (“Beauty China” or “the Group”), a brand management company that owns and manages *Colour Zone* and *CharmingLady* brands of colour cosmetics and skincare products in China, today reported a whopping 24.3% rise in net profit to HK\$109.6 million (S\$23.5 million¹) for the year ended 31 December 2005 (“FY2005”).

The Group chalked up sales increase of 32.1% to HK\$346.6 million (S\$74.3 million), boosted by its consistently strong growth in its retail network, adding a total of approximately 190 new *Colour Zone* retail outlets in Mainland China in FY2005. As at 31 December 2005, the Group had over 900 stand-alone counters and specialty stores for its *Colour Zone* brand, and more than 60 image counters retailing its *CharmingLady* products.

Colour Zone cosmetics products are also available in approximately 22 Walmart and 30 Watson’s stores in Mainland China, as well as 42 Sa Sa stores in Hong Kong and Macau.

¹ Based on exchange rate of HK\$4.6648 = S\$1

In the fourth quarter of FY2005 alone, the Group added approximately 60 *Colour Zone* and 10 *CharmingLady* new retail outlets. Beauty China targets to have 1200 *Colour Zone* and 150 *CharmingLady* outlets in Mainland China by the end of FY2006.

The Group's overall gross profit margin declined marginally to 63.4%, from 63.7% in FY2004 in spite of the further increase in cost of plastic packaging materials caused by the oil price hike, particularly during the first half of 2005. However, the impact of higher packaging costs was mitigated by the launch of new products with higher average margin, without increasing the selling prices of existing products.

Commenting on the results, Mr Sam Wong, Beauty China's Chairman and Managing Director, said: "We are very pleased that we have managed the challenges of fluctuating oil prices well, and maintained a very satisfactory margin on our sales. Beauty China still has a lot of room to grow in China's burgeoning aesthetics markets, particularly in the colour cosmetics and skincare space. Our flagship brand - *Colour Zone* - is a Chinese brand which continues to garner strong customer awareness and brand loyalty despite increasing competition from both foreign and local players."

Advertising and promotion ("A&P") expenses, the major component of the Group's selling and distribution costs, increased in line with sales growth by 61.0% to HK\$58.6 million (S\$12.6 million). This was also due to increased market competition and higher advertisement rates. A&P expenses accounted for 16.9% of revenue for the entire year, compared to 13.8% a year ago.

In October 2005, Beauty China granted 10,400,000 share options to certain employees, incurring an expense of HK\$1.5 million (S\$0.3 million) in the fourth quarter of FY2005, in compliance with new accounting standards - IFRS2 "Share-based Payment". "I believe that the grant of share options gives recognition to the contributions made by these employees and helps instill loyalty to the Group. Their talent and experience are always important for growing our business," Mr Wong said.

In its latest full-year results, the Group's basic earnings per ordinary share, based on the weighted average number of 342,360,620 shares issued, increased from 25.8 HK cents to 32.0 HK cents (6.9 Singapore cents), whilst its net asset value per ordinary share rose

from 65.6 HK cents to 93.8 HK cents (20.1 Singapore cents) as at 31 December 2005. Taking in the effect of dilution, the Group's earnings per share for the full year was 31.9 HK cents (6.8 Singapore cents), based on 343,990,804 shares.

To reward shareholders, the Board of Directors has recommended a final dividend of 1.8 Singapore cents per ordinary share.

During the year, Beauty China's *Colour Zone* brand sponsored a widely-watched "Colour Zone - Super Idol" (色彩地带Super Idol下一站天后2005超级新秀大赛), a nation-wide talent quest whose finals was held in Beijing on 25 September 2005. Launched on 20 June 2005, "Colour Zone – Super Idol" had received more than 10,000 participants through its regional heats in 6 cities – Shenyang, Beijing, Wuhan, Chongqing, Guangzhou and Shanghai.

"Indeed, our *Colour Zone* and *CharmingLady* brands have achieved awareness levels that we are satisfied with, but brand-building is an ongoing process and we'll have to increase our efforts even more with growing competition and higher consumer expectations that normally comes with rising affluence," Mr Wong said.

"This is where product innovation and superlative product quality comes in to further differentiate ourselves from the rest of the pack. This year, we plan to invest not more than HK\$20 million (S\$4.3 million) to set up our own research and development ("R&D") centre in China with the help of an experienced Japanese cosmetics R&D firm as our consultant."

"We feel that R&D is critical to sustaining the Group's long-term growth especially if we are to distinguish ourselves from the rest of the local cosmetics companies in China. However it will probably take a couple of years to develop a cosmetics product unique in the market. Before the first product is rolled-out, our proposed R&D centre will also focus on enhancing the quality of our existing products," Mr Wong explained.

Barring any unforeseen circumstances, the Directors of Beauty China remain optimistic of the Group's performance in the next 12 months.

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 Brands" in the PRC cosmetics industry², in two consumer goods market surveys conducted in March 2003 and March 2004.

With more than 600 varieties of individual end-products, Colour Zone products are retailed in over 900 outlets which are mainly dedicated counters in department stores and standalone specialty stores throughout China, as far reaching as Xinjiang, Tibet and Inner Mongolia. The retail outlets are owned and operated by more than 70 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 late 2004 which targets ladies above the age of 25 with relatively higher disposable income and is retailed at more than 60 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 logistics, product processing and product distribution, are outsourced to third parties. Beauty China designs and conceptualises the way its products are packaged, marketed and sold, and ensures that these are adopted consistently by all its distributors and retailers.

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 process such materials based on a set of selection criteria. Beauty China also conducts quality checks on its products at the approved processing factories, as well as at its customers' outlets.

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² In two market surveys conducted jointly by the China Product Safety Monitoring and Testing Centre (中国产品安全评价监测中心), the China Association of Industry Investigation and Statistics(中国调查统计行业协会) and the China Association of Famous Brands(中国名牌商品协会) in March 2003 and March 2004.