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Beauty China's 1Q net profit up 30.5% to HK\$22.4M on sales of HK\$66.1M

- *Sales grew 32.6% in the first quarter of FY2005 due to the expansion of its Colour Zone retail network to more than 740 outlets all over China*

SINGAPORE – 9 May 2005 – 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 30.5% surge in net profit to HK\$22.4 million (S\$4.7 million¹) for the first quarter of FY2005 ended 31 March 2005.

This was achieved on the back of a 32.6% growth in revenue to HK\$66.1 million (S\$14.0 million), boosted by the Group’s continual roll-out of exclusive *Colour Zone* and *CharmingLady* retail outlets in Mainland China which grew from about 550 in the first quarter of FY2004 to more than 740, including 8 Wal-Mart and 3 Watsons’ stores, in the first three months of FY2005, as well as its strong brand marketing efforts. Initial contributions from the recently-established distribution channel – Sa Sa stores in Hong Kong and Macau – accounted for less than 2% of the Group’s turnover.

Commenting on the results, Mr Sam Wong, Beauty China’s Chairman and Managing Director said, “We are pleased with our first quarter performance despite a slight dip in gross profit margin to 63.3% as a result of higher costs of plastic packaging materials. We were able to mitigate the impact by increasing the selling price of our newer products. In fact, we saw an improvement in our gross profit margin when compared to the fourth quarter of FY2004.”

¹ Based on exchange rate of HK\$4.7281 = S\$1

“Despite increased spending on advertising and promotional campaigns, and higher staff costs, we have been able to maintain our net profit margins to around 34% by focusing on top-line growth,” Mr Wong added.

The Group also saved on tax expenses in the first quarter as its wholly-owned subsidiary in Macau, Colour Zone Comercial Offshore de Macau Limitada, came into operation in September 2004 and had taken over the Group's trading business outside Hong Kong, of which the profit generated is tax-exempt.

Based on the Group's latest first quarter performance, earnings per ordinary share (based on the weighted average issued share capital of 342,360,620 shares) increased from 5.0 HK cents (1.1 Singapore cents) to 6.5 HK cents (1.4 Singapore cents). The Group's net asset value per ordinary share grew from 65.6 HK cents (13.9 Singapore cents) to 72.1 HK cents (15.2 Singapore cents).

Looking Ahead

Going forward, the Group will continue to focus its efforts on branding and promoting consumer loyalty, which are its key critical success factors in growing market share in China.

To date, Beauty China has made significant headway in expanding its reach in China. Besides new store roll-outs from existing customers and distributors, the Group had managed to expand its distribution channels to include tie-ups with Watsons' 22 stores in Shanghai, Wal-Mart China's 40 stores, as well as Sa Sa's 42 stores in Hong Kong and Macau. The Group's *Colour Zone* and *CharmingLady* products may also find their way to Sa Sa's eight stores in Singapore, four in Taiwan and 11 in Malaysia later this year.

“Whilst competition in the domestic cosmetics market remains keen, we will continue our strategies in expanding our distribution network and increasing brand awareness. In addition, we will continue to expand our product offerings to include more stylish and trendy products, as we strive to exceed the expectations of our customers. Barring any unforeseen circumstances, the Directors remain optimistic of the Group's performance in the next 12 months,” Mr Wong said.

“We are also on track to have no fewer than 900 retail outlets by year's end,” he added.

About Beauty China

Beauty China owns and manages the 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. 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 500 varieties of individual end-products, Colour Zone products are retailed in over 740 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 80 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" range of colour cosmetics marketed as a sub-brand of Colour Zone which targets ladies above the age of 25 with relatively higher disposable income and is initially retailed at professional beauty salons 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.

Reflecting the rapid growth of its business, Beauty China's revenue grew at a compounded annual growth rate (CAGR) of 40.8% from HK\$66.7 million in FY2000 to HK\$262.3 million in FY2004. Net profit rose at a CAGR of 38.5% from HK\$24.0 million in FY2000 to HK\$88.2 million in FY2004.

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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.