
**RESPONSES TO QUERIES ON FULL YEAR RESULTS ANNOUNCEMENT ON THE FINANCIAL
YEAR ENDED 31 DECEMBER 2008**

In response to the queries raised by the Singapore Exchange Securities Trading Limited on 4 March 2009, the board of directors of Beauty China Holdings Limited (the "Company") wishes to provide the following information:

- 1. The Company made an allowance of HK\$42.4m for impairment of Trade Receivables. Please disclose whether this relates to major customers of the Company; whether future sales to these customers will be affected and whether further impairment needs to be made.**

The allowance of HK\$42.4 million was made for the full balances owed by 19 small to medium customers of the Group. There were no major customers or top 10 customers amongst these customers. Major customers are those customers who individually accounted for 5% or more of the Group's revenue from Brand Business for the year ended 31 December 2008. Total sales contributed by the customers for whom allowance has been made amounted to approximately 13.15% of the total revenue from Brand Business for the year ended 31 December 2008. The Group has ceased trading with 11 of these customers and has found or been seeking new or existing customers to take over their business of distributing the Group's products. The Group will consider taking the appropriate recovery action against these customers on a case by case basis having regard to the likelihood of recovery. Allowance has however been made against the full outstanding balance. For the remaining 8 customers, the Group has allowed them to continue distributing the Group's products but has ceased supplying them new products except on a cash on delivery basis. The board has made provision for outstanding balances of these customers based on the ageing of their outstanding debts and their recent payment records. As allowance is against the full balances, no significant additional impairment is expected for the customers for whom allowance has been made. On the other hand, the Group may write back the the full amount or a portion of the allowance made for any of these customers to the estimated recoverable amount.

- 2. In addition to the above, we note that the Company's trade receivables balance has increased by 34.8% from HK\$212.4m to HK\$286.3m as at 31 December 2008. Please disclose what actions the Company is taking to recover the outstanding debts.**

The Group keeps close contact with all customers and monitors closely the financial health of each of them. The management of the Group strives to balance the need to continue to support our customers in these difficult times with the need to press customers for quicker payment to manage credit risks. The Group is helping slow paying customers who are facing difficulties in their business by providing marketing support, advising on store/counter image and negotiating with department stores/shopping malls on their behalf to request for better terms. The Group is also seeking to put in place arrangement for direct collection from retailers of these customers in the appropriate cases. In the event collectibility from a certain debtor becomes a concern, the Group may cease trading with that customer and demand immediate payment of the outstanding amount. The Group also considers alternative methods in recovering outstanding debts including the appointment of debt recovery agents and taking legal actions.

3. The Company's other receivables balance increased by 85.8% from HK\$50.5m to HK\$93.9m as at 31 December 2008. Please provide a breakdown on the major items included in this balance and to explain the significant increase.

	2008 HK\$'000	2007 HK\$'000	Change %
Advertising deposits	82,932	43,487	90.7
Down-payment for purchase of merchandise	5,007	4,534	10.4
Down-payment for purchase of machinery	5,451	1,747	212.0
Rental and other deposits	<u>598</u>	<u>791</u>	-24.4
	<u>93,988</u>	<u>50,559</u>	

Advertising deposits represented advance payments made for advertising and promotion campaigns, usually at discount rates for prepayments. Increase in advertising deposits was a result of the Group's new advertising and promotion campaigns contracted mostly before the downturn of retail market in China, after the appointment of a well-known artiste and singing diva – Angela Chang (张韶涵) as new spokesperson for the Group's Colour Zone brand in the third quarter of 2008.

Increase in down-payment for purchase of machinery was attributable to new machines and equipment to be used in the new 2-storey GMP-compliant powder production plant.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai
Chairman
6 March 2009