
UPDATE BY BOARD OF DIRECTORS

The Board of Directors ("**Board**") of Beauty China Holdings Limited (the "**Company**") wishes to clarify the circumstances leading to the trading halt commencing on 9 March 2009, the developments concerning the financial position of the Company and a potential new investment into the Company by potential third party investors. The Board of Directors have requested for a suspension of trading of the Company's shares commencing from 12 March 2009 until further notice.

The trading halt on the morning of 9 March 2009 was initiated with a view to updating the market on the status of the proposed share sale by the Company's major shareholder, Lucky Gain International Limited ("**Lucky Gain**"), the particulars of which are set out in paragraph 3 of this Announcement. Lucky Gain is a company in which all its shares are beneficially owned by Mr Wong Hon Wai, Chairman of the Company ("**Mr Wong**").

On 9 March 2009, the Company received a statutory demand from the Company's syndicated lenders (the "**Lenders**") for the repayment of the entire principal and interest outstanding on a syndicated term loan granted to the Group (the "**Loan**"), the particulars of which are set out in paragraph 1 of this Announcement. The Board was informed of this in the morning of 10 March 2009 and the Independent Directors of the Company forthwith nominated one of the Independent Directors to attend a meeting with the agent for the Loan (the "**Agent**") together with the Company's management ("**10 March Meeting**").

The Company's management has also been exploring various options for strengthening the balance sheet of the Company since February 2009, including consideration of a fund raising exercise through a rights issue and entering into discussions with potential investors for investment into the Company, the particulars of which are set out in paragraph 2 of this Announcement.

1. Statutory Demand by Lenders

The Company had on 9 March 2009 received a statutory demand from the Lenders for the repayment of the entire principal and interest outstanding on the Loan, amounting to approximately HK\$134 million, by 27 March 2009. The Company had requested the Lenders for extension of time for payment of the first instalment of the Loan of approximately HK\$27 million since January 2009. This request was made due to the slow collection of trade receivables from distributors and the accelerated payments to suppliers and contractors who have shortened their credit terms to the Company and its subsidiaries (the "**Group**") during the last quarter of 2008. These circumstances surrounding the Group did not improve in the beginning of 2009, leaving the Group having to manage a tight cash flow to fund operations and repayment of bank loans. Prior to 9 March 2009, it was the Company's belief that the Lenders were considering the Company's request for extension of time to 31 March 2009 for payment of the first instalment of the Loan, and the Company has kept up interest payments and has also repaid part of the loan principal due under the first instalment.

At the 10 March Meeting, the Company informed the Lenders of the prospect of the Company obtaining a fund injection from potential investors, details of which are set out in paragraph 2 of this Announcement. The Company has requested for a standstill until 27 April 2009 whereby no further actions are expected to be taken by the Lenders against the Company so as to allow the Company and the potential investors to proceed with negotiations, due diligence and conclusion of any transaction arising from such negotiations.

Having considered the Group's cash in hand and the rate of repayment and recovery of trade receivables that formed the bulk of the Group's current assets over the last three months, the Board is of the view that a failure to successfully reschedule the Loan will raise a going concern issue with respect to the Company. This is notwithstanding the long term prospect of the Group, the potential of its GMP compliant cosmetics factory in Zhuhai, its extensive network of points of sale throughout China and the excess of

the Group's total assets over its total liabilities.

2. *Potential Investment in the Company*

The Company wishes to inform shareholders that the Company has entered into negotiations with a potential financial investor who will bring in a cosmetics industry player as strategic investor (collectively the "**Potential Investors**"), with regards to potential investment into the Company. Based on preliminary negotiations which are still ongoing, the Company expects the proposed capital injection by the Potential Investors to be adequate to help the Company meet its immediate financial obligations to the Lenders as set out in paragraph 1 as well as to provide additional working capital for the Group's operations. The Company has signed a non-binding term sheet on 25 February 2009. The Company subsequently entered into two supplements to the term sheet with the potential financial investor on 2 March 2009 and 10 March 2009 respectively. The supplement dated 2 March 2009 grants to the potential financial investor a most favored investor status for a period of 6 months from 2 March 2009, whereby the potential financial investor will have the pre-emptive right to invest with investment terms no worse than those detailed in subsequent investment proposals involving the issuance of financial instrument of the Company. The supplement dated 10 March 2009 grants to the potential financial investor an exclusivity period of 6 weeks commencing on 11 March 2009 to allow the potential financial investor to conduct its due diligence on the Group.

The Board wishes to highlight to shareholders that this potential investment in the Company is a separate matter from the potential sale of shares by Lucky Gain, further updates on which are set out in Paragraph 3 of this Announcement.

The Company's management has also been exploring various options for strengthening the balance sheet of the Company since February 2009, including consideration of a fund raising exercise through a rights issue and entering into discussions with potential investors for investment into the Company. Due to the rapid deterioration of the financial position of the Company's major shareholder, Lucky Gain, and hence its ability to fully underwrite its portion of any rights issue that the Company may be contemplating, coupled with the recent plunge in the Company's share price, the Board is therefore of the view that proceeding with a non-underwritten fund raising exercise by way of a rights issue is not in the best interest of the Company.

The Board considers bringing in a financial backer and a strategic investor as the best available option to the Group under the current circumstances.

The Board would like to highlight to shareholders and investors that due to the current adverse conditions existing in capital markets worldwide and the volatility in the share price of the Company's shares, there is no assurance that the transaction (if any) eventually entered into with the Potential Investors will result in the injection of sufficient funds as now contemplated by the Company or that the transaction will proceed to completion (if at all) within the time frame contemplated by the Company.

3. *Update on Potential Sale of Shares by the Major Shareholder*

Further to the Company's various announcements dated 3 March 2009, 4 March 2009 and 5 March 2009 relating to the potential sale of shares by the Company's major shareholder Lucky Gain, the Board has been advised by Mr Wong that Lucky Gain had on 8 March 2009 entered into a conditional sale and purchase agreement (the "**Conditional S&P Agreement**") with the potential purchaser to sell to the potential purchaser 50 million shares in the Company currently held by Lucky Gain (representing approximately 14.0% of the share capital of the Company) and to grant to the potential purchaser a call option to purchase another 41 million shares in the Company currently held by Lucky Gain (representing approximately 11.5% of the share capital of the Company).

The potential purchaser is a subsidiary of a company listed on the Hong Kong Exchanges and Clearing Limited, whose principal business is in financial services.

The agreed purchase price is S\$0.12825 per share, which represented a 5% discount to the closing market price of the Company's shares on 6 March 2009.

The option price (“**Option Price**”) payable by the potential purchaser to purchase the shares subject to the call option referred to above comprised of a right price (“**Right Price**”) of S\$0.00486 per option share and an exercise price (“**Exercise Price**”) of S\$0.1234 per option share, making a total Option Price of S\$0.12835 per option share. The Right Price is payable within 3 days after completion of the sale and purchase of the 50 million shares referred to above and the Exercise Price is payable upon exercise of the option.

The call option may be exercised by the potential purchaser at any time and from time to time on or after 31 December 2010 (“**Earliest Option Exercise Date**”) but not later than the 5th anniversary of the completion date of the sale and purchase of the 50 million shares referred to above. Completion of the sale and purchase of the 50 million shares referred to above is scheduled to take place at 5 p.m., Hong Kong time, on 13 March 2009 on satisfaction or waiver of the conditions precedent. The Company understood that one of the conditions precedent required by the potential purchaser was the entry into of a legal, valid and binding agreement between the Group and the Lenders to vary the terms of the Loan, in form and substance satisfactory to the potential purchaser, by no later than 5 p.m., Hong Kong time, on 13 March 2009. The Company understood that this involves requiring the Loan to be restructured in a manner favourable to the Group. Given the circumstances referred to in paragraph 1 of this Announcement, the Board does not believe that it is likely that this condition will be satisfied by the deadline on 13 March 2009. However, the Board notes that this may be waived by the potential purchaser.

The Company would therefore like to highlight that the conditions set out in the Conditional S&P Agreement may or may not be satisfied or be waived. As such, there is no assurance that any transaction will materialize.

4. *Full Settlement of Outstanding Sum After Forced Sale of the Company's Shares Held by the Major Shareholder*

Further to the Company's announcements dated 5 March 2009, the Board has been informed by Mr Wong that Mr Wong's outstanding sum owed to a financier, amounting to approximately S\$800,000 has been fully settled through further forced sale of the mortgaged shares on 6 March 2009 (please see Announcement Nos.: 00162 and 00163 dated 6 March 2009).

The Company will keep shareholders informed and updated on material developments in respect of the above matters.

The Board would like to caution, however, that there is no assurance that any transaction will materialise arising from the above. Shareholders and investors are therefore advised to exercise caution in their dealings in the Company's shares. Further announcements will be made as and when appropriate on a timely manner.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai
Chairman
12 March 2009