
CLARIFICATIONS TO THE ARTICLE ON BUSINESS TIMES ON 7 MARCH 2009

The Board of Directors (“Board”) of Beauty China Holdings Limited (“Beauty China” or the “Company”) wishes to clarify the article titled “Beauty China’s big expansion plans” published on the Business Times on 7 March 2009 (the “Article”).

1. Beauty China Still Going Big on Expansion

It was reported that the Company had some 50 points-of-sale (“POS”) closed in 2008 and incurred losses in that fourth quarter. Nevertheless, the Company has planned to add over 300 POS in 2009, to launch hair colour products and to bring all production in-house in 2009.

To clarify, the closures of about 50 POS resulted from cessation of trading with 11 customers as disclosed in the Company’s announcement dated 6 March 2009. The continuous expansion of the Company’s distribution network at a slower and cautious approach has been disclosed in the Company’s press release “Beauty China posts FY2008 net profit of HK\$115.0 million”, via SGXNET on 28 February 2009. The Company wishes to further clarify that the retail network expansion of approximately 300 POS in 2009 planned before the receipt of statutory demand from bank creditors on 9 March 2009 as disclosed in the announcement dated 12 March 2009 is in fact less aggressive than the net additions of 455 POS achieved in 2008 after considering the decline in consumer demand. As an operator of self-proprietary cosmetics brands in Mainland China, the Company regularly launches new products to drive its sales. Hair colourant, which belongs to cosmetics product within the board definition in the industry, is one of the new products the Company has planned to launch in 2009 while colour cosmetics and skincare under the Company’s product offerings are expected to remain the major revenue contributors. In addition, the Company has also announced the plan to bring all production activities to the Company’s manufacturing facilities by end of 2009 in the announcement dated 13 August 2008.

Due to the financial difficulties faced by the Company following the receipt of statutory demand from bank creditors on 9 March 2009 as disclosed in the announcements dated 12 March 2009 and 9 April 2009, the Management of the Company has undertaken a review of the Company’s business plans and has decided to suspend the plans for opening of 300 POS and launch of hair colourant products in 2009 until the Company resolves its financial difficulties and sees an improvement in the repayments of account receivables by its customers.

2. Capital Expenditure for 2009

It was reported that the Company has planned about HK\$70 million to HK\$80 million of capital expenditure for 2009 and the costs of bringing the Company’s production in-house has substantially paid off.

To clarify and provide additional information, about HK\$40 million to HK\$50 million of the capital expenditure is planned for opening of new POS in 2009 while the remaining HK\$20 million to HK\$30 million will be used for acquisition of additional machineries and maintenance for the Company’s manufacturing facilities. It is fair to say that the costs of bringing the Company’s production in-house has substantially paid off when the existing manufacturing facilities of the Company are able to satisfy most of the needs for in-house and third-party production and no substantial extra costs are required to be spent for this purpose.

3. Effort to Improve Working Capital

It was reported that the Company has put a lot of effort to improve working capital including controlling costs, inventory management and on collecting debts from distributors.

The Company’s effort to improve working capital, including strengthening cost control and inventory management, reducing budget for capital expenditure and improving in

communications with customers and other business associates, has been disclosed in its announcement dated 28 February 2009. Further actions taken by the Company to improve working capital and the developments after the receipt of statutory demand from bank creditors on 9 March 2009 have been disclosed in other sections of this announcement and also the announcements dated 12 March 2009 and 9 April 2009.

4. Change in Credit Terms with Customers

It was reported that the Company has cut credit terms to new customers by 30 days and existing customers to no more than 60 days, and needs to raise cash before maturity of the short-term loan.

Having considered the cash in hand and the slow recovery of trade receivables, the Company has strived to balance the provision of continuous support to its customers for maintaining the operation of distribution network with the need to press them for payment and has started to supply products to some of its customers on a cash on delivery term, as disclosed in the Company's announcement dated 12 March 2009. To manage credit risks, the Company has shortened the credit terms with most of its customers to reduce credit risks. The adjustments of credit terms offered to customers are determined on a case-by-case or individual basis. During the first two months of 2009, the Company cut the credit terms to 30 days for relatively new customers and to no more than 60 days for most of other customers. The needs and other details of raising cash have been clarified in the section "5. Fund Raising" of this announcement.

5. Fund Raising

It was reported that the Company might raise funds through debt or equity but the Company's focus was to use internally generated funds to finance its operations and other short-term obligations. In additions, the Company's bank borrowing exceeded the cash equivalents as at end of 2008 while most of the loan is due in the second half of 2008.

As disclosed in the Company's announcement dated 12 March 2009, the management of the Company has been exploring various options for strengthening the balance sheet of the Company, including consideration of a fund raising exercise. The Article reported the thought of the Company's management and its financial position on 6 March 2009, prior to the receipt of statutory demand from bank creditors on 9 March 2009, for improving working capital that it preferred internal generated funds from operations to debt or equity fund raising. Details of the developments and a potential investment in the Company have been disclosed in the Company's announcements dated 12 March 2009 and 9 April 2009.

6. Double-Digit Growth in Sales

It was reported that Beauty China had double-digit growth in sales in January 2009.

To clarify, the double-digit growth reported in the Article refers to year-on-year growth of retail sales for the same POS in January 2009 estimated by the Company, but not the sales of the Company and its subsidiaries which do not involve in any retail business. The management of the Company believes that the earlier happening of Chinese New Year in January 2009 is the major reason behind the retail growth despite the economic downturn, compared to the same festival taking place in February 2008 a year ago.

The Company wishes to advise investors to refer to the Company's announcements as primary source of information and to exercise caution when reading materials which have not been announced by the Company via SGXNET. The Company will keep shareholders informed and updated on material developments of the Company as and when appropriate.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai
Chairman
13 April 2009