
OPERATIONS UPDATE

The Board of Directors ("Board") of Beauty China Holdings Limited (the "Company") wishes to update the market the operations status of the Company and its subsidiaries (the "Group").

1. Collections of Trade Receivables

The Group continues to experience delay in recovery of trade receivables since the downturn in economy in Mainland China. The management of the Group 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 to manage credit risks in these difficult times. Nevertheless, the progress in collections from customers has not been improved and their repayments have slowed further subsequent to the publicizing of the receipt of statutory demand from bank creditors by the Company on 9 March 2009 as disclosed in the announcement dated 12 March 2009, creating severe tension between the Group and its customers.

During the first three months of 2009, the Group collected approximately HK\$24.7 million, out of the unaudited trade receivables balance of HK\$286.3 million as at 31 December 2008. The Group has put a lot of effort to recover the trade receivables, including keeping close contact with most of its existing customers to understand their financial health and difficulties, appointing debt recovery agents to collect debts from some of its trade debtors who ceased doing business with the Group, and negotiating with customers to set forth their repayments as one of the conditions for distribution contract renewal. The Group will also consider taking the appropriate action on a case by case basis having regard to the likelihood of recovery. Currently, the Group still maintains business relationship with most of its existing customers after terminating contracts with 9 of them in the first three months of 2009.

The Board does not believe that recovery of trade receivables will improve significantly in the ordinary course of the Group's business unless there is a significant pickup in the economy and consumption in China and the Group can successfully resolve its current financial difficulties.

2. Retail Network Operation

The overall business of retail network selling the Group's Colour Zone and CharmingLady brands in Mainland China has been adversely affected by the general fall in economy and the limited supply of products by the Group for many customers due to their slow debt repayments. Given the tense relationship with the customers over their repayments as well as the recent financial difficulties faced by the Group, the management of the Group has followed a review of the Group's business plans decided to suspend most of new point-of-sale ("POS") opening originally planned since March 2009 until these issues can be resolved. There are also more closures of POS than the normal shutdown and relocation when the retail business deteriorated and the Group has ceased trading with some customers, leading to a contraction of the Group's retail network by about 100 POS during the first three months of 2009 and making a total of approximately 2140 POS as at 31 March 2009.

3. Factory Utilisation

After publicizing of the financial difficulties of the Group, many third-party OEM customers have deferred or cancelled their orders placed with its cosmetics factory and most negotiations for new orders and with potential OEM customers have been held back. Due to fewer production for OEM orders and reduced supply of products under the Group's brands as well as traditional low season for its business, the estimated average utilisation of the Group's cosmetics factory, based on one work shift, decreased to less than 20% in the first three months of 2009, compared to 56% for the fourth quarter of 2008. The Group has implemented strict cost control on the operation of its cosmetics factory by better scheduling of production and cutting headcount.

The Board believes that the utilisation of the Group's cosmetics factory will remain low until there are improvements in relationship with customers and their retail business, and the confidence of other business associates, such as suppliers and OEM customers, that the Group can successfully resolve its current financial difficulties and re-build its business.

The Company will keep shareholders informed and updated on material developments as and when appropriate.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai
Chairman
13 April 2009