BEAUTY CHINA

ANNUAL REPORT 2008

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the face of COLOUR ZONE

Angela Chang


CHARMINGLADY
GlamourColour
Liquid Foundation
CHARMINGLADY
CHARMING


Wet & Dry Compact Foundation


Snow Intelligence Dual Compact

BEAUTYCHINA

ANNUAL REPORT 2008

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INTENSE EYE COLOUR QUAD

Four dazzling colours.
Smooth delicate textures.

Create your look for all occasions with just one palette. From natural nude lids to mysterious smoky eyes, redefine your look anytime with Colour Zone Intense Eye Colour Quads.

Available in warm brown, cool blue and intense purple.

colour zone

Dermatologist Tested. 100% Fragrance-Free.
Formulated for Asian skins.

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Meta Fusion Pte Ltd

My Spiel

We are pleased to unveil the inaugural issue of Beauty China Annual 2008. In this year's edition, our sixth annual report to shareholders adopts a new brand- new look which, we hope, you will find informative and engaging. Clad in a lifestyle magazine format, this edition hopes to draw you into the world of Beauty China, and offers you a peek into what the Group is all about, and how we have fared during the year in review.

OUR PERFORMANCE IN A NUGGET

During the year in review, Beauty China managed to achieve revenue growth through an ever-expanding retail network. As at 31 December 2008, the Group had a total of 2,249 points-of-sale for both of our brands and this includes 128 points added in the fourth quarter in spite of tougher operating landscape. In FY2009, we are therefore taking a more prudent and cautious approach to our network expansion.

MANUFACTURING BUSINESS GAINING TRACTION

Meanwhile, our OEM/ODM business has been gaining traction, with a gradual rise in average utilisation (based on single shift) from quarter to quarter in FY2008.

In January 2009, the Group inked a three-year agreement with major Japanese cosmetics producer JO Cosmetics Co. Ltd. to manufacture, use and sell certain finished and semi-finished cosmetics products, under the technical expertise and patents owned by JO Cosmetics.

BEAUTY CHINA IS NOW JO COSMETICS' FIRST AND EXCLUSIVE MANUFACTURING AND DISTRIBUTION PARTNER IN THE PRC, AND WE HOPE TO LEVERAGE ON JO COSMETICS' NETWORK TO EXPAND OUR OEM BUSINESS TO MAJOR COSMETICS COMPANIES AND WELL-KNOWN INTERNATIONAL BRANDS AND TO TAP ON ITS R&D EXPERTISE TO IMPROVE THE QUALITY OF OUR OWN BRANDS.

THE WAY AHEAD

Due to the very limited supply of sizable GMP-certified cosmetics production facilities in Mainland China, we feel optimistic of the prospect of the Group's manufacturing business.

Moving forward, we are confident that the long-term demand for cosmetics and skin-care products in Mainland China will be strong. Even with the economic downturn, our products are still attractive to the mass market given their affordability. In fact, consumers going on an austerity drive may shift from buying high-end international cosmetics brands to affordable local quality products.

Special thanks to our directors on the Board, and to Beauty China's management and staff for their unwavering team spirit in the face of business challenges.

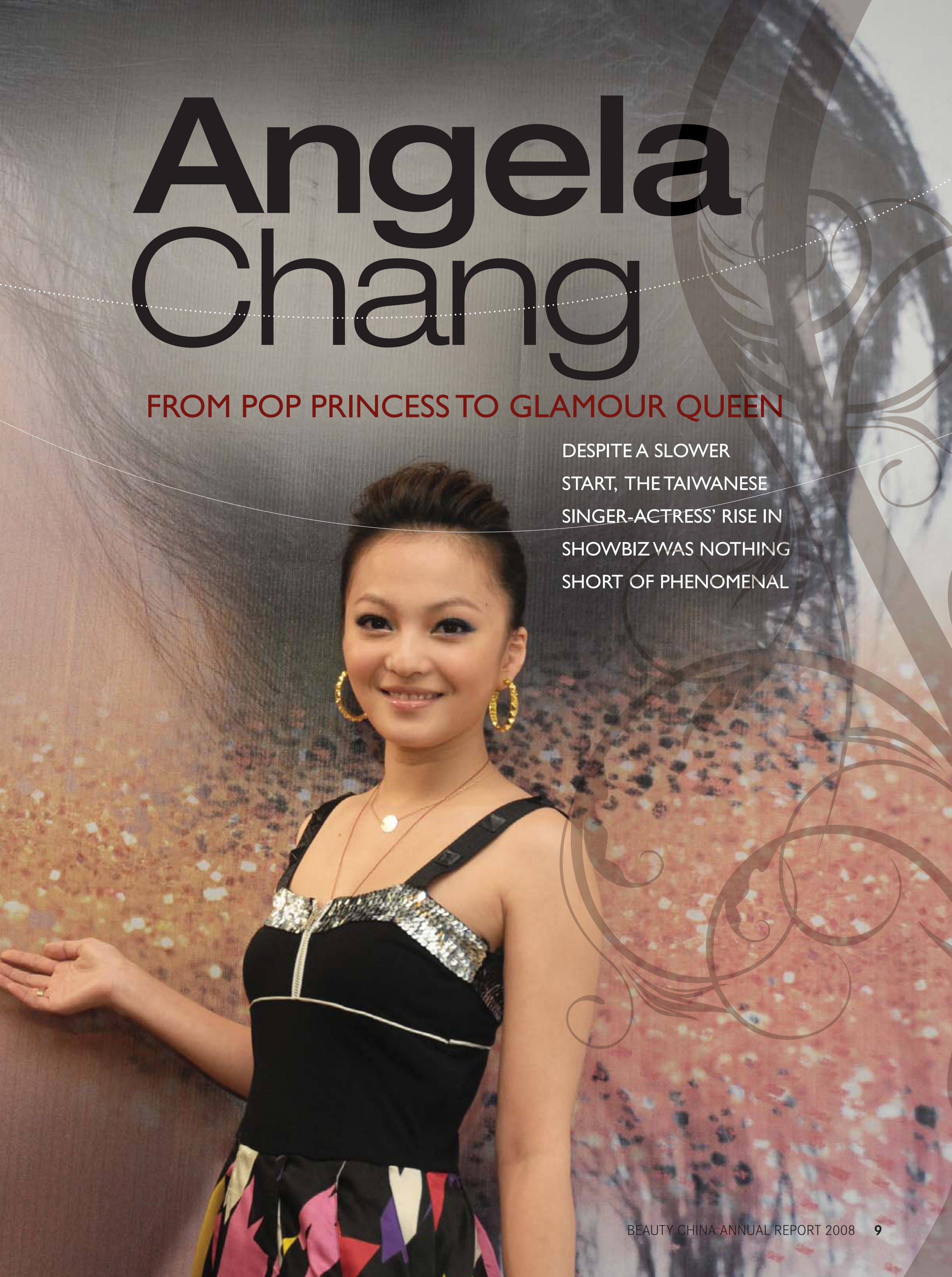
On behalf of the Board, allow me to thank our shareholders for their continued support in these difficult times. We remain wholly committed to increasing the value of the Company.

WONG HON WAI
Chairman & Managing Director

Angela Chang

FROM POP PRINCESS TO GLAMOUR QUEEN

DESPITE A SLOWER START, THE TAIWANESE SINGER-ACTRESS' RISE IN SHOWBIZ WAS NOTHING SHORT OF PHENOMENAL



Angela Chang first shot to stardom in 2002 as the feisty, petite Tian Yuxi in the hit Taiwanese television drama series, *MVP Valentine*. That lead role was Angela's first foray into acting, and she has never looked back since. Her popularity soared as she starred in subsequent television drama series such as *At the Dolphin Bay* (2003), *Bump Off Lover 17* (2006) and *Romantic Princess* (2007), and launched her singing career at the same time.

Angela's rise to fame was not a walk in the park though. Born in Taiwan, she moved to Canada with her family when she was 12. She was fond of singing from an early age and took part in several singing competitions. She got her first breakthrough when she represented Vancouver and won an international Mandarin singing contest in Taiwan at the age of 15.

However, it was only a couple of years later in 2001 when her talent was recognised and she was signed-on by a music producer in Taiwan. She spent the following year undergoing grueling training – vocal lessons, recording, dancing, running, swimming and other physical exercises.

"Besides travelling around the world and setting up my own shop, singing is also my dream. I've never complained about the hardship as I know that someday it'll be worth it," recalls the doe-eyed beauty.

Ironically, Angela did not launch her showbiz career through singing despite her talent and training. She started her career acting on the small screen in *MVP Valentine* in 2002, which became a hit and propelled Angela to stardom.

As one of the hottest rising stars in Taiwan, Angela continued to star in her next TV drama series, *At the Dolphin Bay* in 2003. It was then that she showcased her music talent when she sang one of the series' theme songs, *Journey*.

It didn't take her long thereafter to release her debut album, *Over the Rainbow*, in January 2004. The album was an instant hit, and music critics and fans were won over by her powerful and unique voice. She continued to release another four albums to date, with her most recent album, *Ang 5.0* released in December 2007.

“I’M EXTREMELY HONOURED TO BE THE AMBASSADOR OF COLOUR ZONE. I HOPE TO USE THIS OPPORTUNITY TO SHARE MY FAVOURITE COLOUR ZONE PRODUCTS WITH FELLOW YOUNG WOMEN, AND BRING THE VIVACITY AND MODERN BEAUTY OF COLOUR ZONE TO MORE PEOPLE.”

During this period, Angela’s singing and acting received affirmation from entertainment critics as she won four awards in the Singapore Hit Awards 2007. In addition, she was nominated for Best Female Singer twice in the Taiwan Golden Melody Awards in 2005 and 2007, and Best Actress for her role in *Bump Off Lover 17* in the prestigious Taiwan Golden Bell Awards in 2006.

In the past one year, Angela’s pretty face has been appearing in numerous advertisements and billboards as she becomes the ambassador of various brands and products, including beverage giant Sprite, casual wear brands Metersbonwe and Bobson Jeans, Panasonic Lumix cameras, and Acuvue contact lenses.

Recently, she has also become the face of China’s leading home-grown cosmetics brand, Colour Zone. Her pretty and sweet demeanour, exuberance and radiant personality have made her the number one choice for this vibrant and trendy brand, which carries an extensive range of colour cosmetics and skin-care products.

In September 2008, Angela began the new advertising campaign for Colour Zone with a highly successful media event in Shanghai. Wearing the latest colours from Colour Zone’s 2008 fall / winter collection, she enthusiastically played make-up artiste for the day, gladly sharing her cosmetic tips and applying make-up for a few lucky fans.

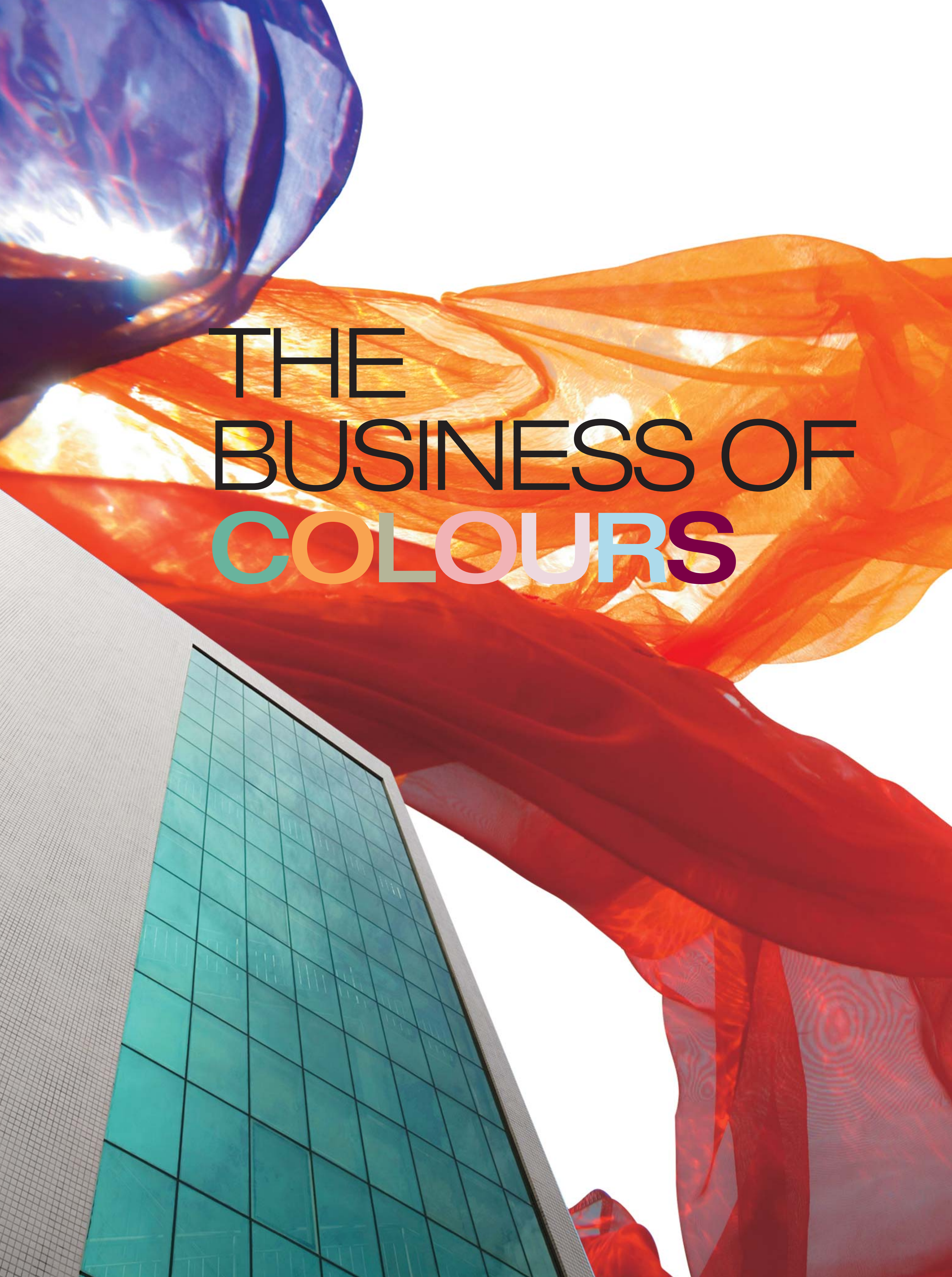
Recently famed as the “New Cosmetics Queen”, Angela tells Beauty China Annual 2008, “As celebrities, we are often under the public eye. During these times, it is very important that we look our best. As such, I am very selective with colour cosmetics because good colour cosmetics have the ability to make one look exquisite and stunning.”

On working with Colour Zone, she enthuses, “I’m extremely honoured to be the ambassador of Colour Zone as this is a brand I’m very familiar with. More particularly, I’m immensely impressed and pleased with the quality of its products. I hope to use this opportunity to share my favourite Colour Zone products with fellow young women, and bring the vivacity and modern beauty of Colour Zone to more people.” ❖

ANGELA’S PROFILE

CHINESE NAME:
张韶涵 (Zhang Shaohan)
BIRTH DATE:
January 19, 1982
BIRTH PLACE:
Taiwan
FAMILY MEMBERS:
Parents, a younger brother and a younger sister
LANGUAGES SPOKEN:
Mandarin and English
FAVOURITE MUSIC GENRES:
R&B and Bossa Nova
FAVOURITE SINGERS:
Christina Aguilera, Lisa Ono, Nelly, Ringo Shiina and Zhang Hui-Mei
MUSIC ALBUMS RELEASED:
Over the Rainbow (2004)
Aurora 欧若拉 (2004)
Pandora 潘朵拉 (2006)
Flower in Wonderland 梦里花 (2007)
Ang 5.0 (2007)
TELEVISION SERIES:
My MVP Valentine MVP 情人 (2002)
At the Dolphin Bay 海豚湾恋人 (2003)
When Dolphin Met Cat 海豚爱上猫(2005)
Bump Off Lover 17 爱杀十七 (2006)
Romantic Princess 公主小妹 (2007)
MOVIE STARRED IN:
Love Message 短信一月追 (2005)

THE BUSINESS OF COLOURS



COLOUR ZONE, WELL KNOWN FOR ITS AFFORDABLE AND COLOURFUL RANGE OF COSMETICS IN CHINA, HAS MADE A HUGE SUCCESS SINCE ITS LAUNCH IN 2003. TODAY, IT IS ONE OF THE TOP TEN COLOUR COSMETICS BRANDS IN CHINA.

In 2005, Beauty China introduced a slightly more upmarket brand, targeting at women who are more sophisticated, with higher disposable income, and who appreciate the finer things in life. The CharmingLady range sports sleeker packaging and are power-packed with age-defying active ingredients.

Armed with its two brands, Beauty China decided to control quality by making its own products instead of relying on third-party manufacturers. This turns out to be a wise choice in the wake of quality problems experienced by other international brands who use less-than-satisfactory factories in China. Beauty China's spanking new factory is GMP-certified, which is the same grade as for pharmaceutical products. Aside from making its own cosmetics and skin-care products for Colour Zone and CharmingLady, Beauty China intended to capture the outsourcing trend of international brands wanting to make a mark in China.

In 2007, it diversified upstream into the manufacturing business, not just for its own brands but to capture the volume of outsourcing available from foreign brands wanting to enter into the China market.

That year, Beauty China acquired a brand-new manufacturing facility in Zhuhai in Guangdong Province. Perched on an 85,000 square metres land parcel in Zhuhai's Special Economic Zone, its state-of-the-art GMP-compliant production facility is just 30 minutes' drive from Macau, and about 140 km southeast of Guangzhou – the capital of Guangdong Province. It is also an hour's ferry ride from Hong Kong and Shenzhen.

With 32,000 square metres of gross floor area, this is one of the few GMP-certified factories in China that is equipped for producing a spectrum of colour cosmetics, skin-care products, hair colourants, and other toiletry products. Its wholly-owned subsidiary - KIST Corporation - focuses on the cosmetics contract manufacturing side of the business, targeting particularly global labels wanting to take advantage of a more efficient supply chain management in China.

Recently, the Group joined forces with a major Japanese cosmetics manufacturer JO Cosmetics to produce finished and semi-finished products using JO Cosmetics' proprietary know-how. The Group has just completed a two-storey powder production plant as part of its collaboration. ❖

▶ CHARMINGLADY AFTER SUN SOOTHING CARE

Sun bathing can never be better with CharmingLady's new After Sun Soothing Care lotion. This light and creamy lotion melts into your skin instantly to nourish and hydrate your skin after a day-out in the sun. Suitable for all skin types, the Vitamin E-enriched lotion contains a soothing agent that cools and comforts your skin almost immediately. What's more, it visibly illuminates the tan on your skin – we like!

COOLPRODUCTS

Beauty products are surely a girl's best friend! We give you the highlights of the latest Colour Zone and CharmingLady cosmetics and skin-care products that we have been smitten with...

▼ CHARMINGLADY GLAMOURCOLOUR LIP ROUGE

Seal your kiss with CharmingLady's GlamourColour Lip Rouge! It comes in a multitude of alluring colours so you will definitely be spoilt for choice. What we like best about this lipstick is its moisturizing and velvety texture, and its unbelievably long staying power...

▶ CHARMINGLADY GOLDEN CLEANSING GEL

We absolutely love CharmingLady's Golden Cleansing Gel. We have never seen any sparkly golden cleansers like this! This invigorating cleanser removes make-up with ease, and has a nice scent to boot. It contains natural extracts which lock in the moisture balance – leaving your skin feeling clean and smooth, yet not tight.

▼ CHARMINGLADY AFTER SUN LOTION

Rejuvenate dry, sun-exposed skin with CharmingLady's After Sun Lotion. Enriched with Vitamin E and moisture-locking factor, this soothing lotion replenishes dry skin after prolonged sun exposure. We simply adore its lightweight formula – it is so easily absorbed that it can be reapplied as often as necessary. Not only does our skin feel good, it looks radiant and healthy as well!

▼ CHARMINGLADY GLAMOURCOLOUR LOOSE POWDER

Powder your way to radiant, natural-looking skin. This soft, smooth-textured powder glides on your face naturally, blending in seamlessly. At the same time, the ultra-fine IPL (Intense Pulsed Light) particles brighten skin tone. A must-have in every woman's make-up kit.

▲ CHARMINGLADY BLUSH LUX

CharmingLady Blush Lux has a wide range of colours, from subtle to glamorous. The must-have this season are the natural colours which subtly define and enhance facial features, while delivering a soft flattering radiance and a seamless finish to your cheeks.

CHARMINGLADY ALLURING EYE QUAD (above left)

CharmingLady's Alluring Eye Quad palette is all you need for a night out. It contains four versatile shades that allow you to create any look you want – from soft and romantic to chic and sultry. The smooth texture leaves a fine and luminous finish that brightens up your eyes instantly.

▼ CHARMINGLADY GLAMOURCOLOUR TWO-WAY CAKE

An incredibly soft and lightweight compact foundation that glides smoothly over your skin for an even, long-lasting coverage. Your face looks fresh with a natural and flawless complexion, minus the shine. It is non-comedogenic so it doesn't clog pores too! Apply using the compact puff for a heavier coverage or brush evenly with a loose powder brush for a lighter finish.

◀ COLOUR ZONE REVIVING SUN REPAIR (far left)
Revitalise dry skin and repair sun-damaged skin with Colour Zone Reviving Sun Repair. With natural seaweed extract, hyaluronic acid and moisture-locking properties, this lightweight formula calms and soothes irritations and improves skin texture. At the same time, it provides a protective shield to alleviate sun damage and other environmental stress experienced by your skin. An essential for all outdoor trips.

◀ COLOUR ZONE REVIVING MATTIFYING LOTION (left)
Colour Zone's Reviving Mattifying Lotion is a must for all ladies who face problems with their T-Zones. It helps to absorb oil and control shine, so you can be assured of a refreshing feel all day long.

COOLPRODUCTS

▼ COLOUR ZONE WATERPROOF REDEFINING PRESSED POWDER
Perfect for oily skin, Colour Zone Waterproof Redefining Pressed Powder removes the shine and creates a long-lasting base for make-up on the face. The powder is so fine and soft, it makes your skin supple and radiant. What's more, its waterproof formula ensures that the powder stays on your face for hours and hours, rain or shine!

▲ COLOUR ZONE LOVE MAGIC EYE QUATTRO
Don't leave home without Colour Zone's Love Magic Eye Quattro! Available in an extensive range of shades for lids, lining eyes, and defining brows, this silky matte formula glides on smoothly and blends easily.

COLOUR ZONE SWEET CHEEK BLUSH (above, bottom)
A natural blush with sheer fine texture and unique light diffusing particles to accentuate your cheek bones. Choose from five alluring colours, abound to suit your every mood!

◀ COLOUR ZONE CLEAR WHITE EYE CREAM

This rich, yet light-textured daily hydrating formula contains unique ingredients to moisturize and revitalize the delicate eye area. We love how this cream wonderfully rejuvenates fatigue and puffy eyes!

▼ COLOUR ZONE SNOW INTELLIGENCE DUAL COMPACT

This silky translucent compact defines the face contours and diminishes the appearances of blemishes, leaving skin as clear and flawless as snow. Specially formulated for Asia skin tones with four complementary shades, finding the right shade that blends in seamlessly with our skin is a breeze!

◀ COLOUR ZONE FRUITY LIP GLOSS

Get luscious, delicious-looking lips with Colour Zone Fruity Lip Gloss. A non-sticky formula that doesn't smudge, it leaves your lips with a long-lasting shine. It comes in 20 brilliant colours to create luscious, juicy lips that are as yummy as fresh fruit pastilles! Mmm...

▼ COLOUR ZONE CLEAR WHITE RESTORATIVE MASK

This moisturising restorative mask is rich in Vitamin C, Clairju (a prune extract) and other active hydrating ingredients to effectively improve dull, blotchy and uneven skin. Leave the mask on for just 15 to 20 minutes, and *voila* – your skin instantly appears healthier, smoother and more radiant.

Destination: Shanghai

A taste of old world charm at Xintiandi

Pudong's illuminated skyline – the iconic view of modern Shanghai

LIVE IT UP IN THIS MODERN METROPOLIS WITH A HISTORIC CHARM

Shanghai is a scintillating city swirling with rapid cultural change. While it cannot match the epic history of Beijing or the grander sights of Xi'an, Shanghai is the hotspot of modern China; a cosmopolitan city buzzing with contemporary urban living, avant-garde fashion and fine dining on the Bund, showcased in the 1930s European architecture from its colourful past. It is no wonder that the city is named the Paris of the East.

ITS FLAMBOYANT HISTORY

When the British opened their first concession in Shanghai in 1845, after the first Opium War, it was no more than a small fishing town. The French turned up shortly after in 1849 and change was rapid. By the 1930s, the world's greatest houses of finance and commerce descended on Shanghai. The city became synonymous with exploitation and vice with its countless opium dens, gambling joints and brothels patronised by the foreign colonialists.

After the Second World War, the Communists reclaimed the city and eradicated the slums, addiction and slavery. Through decades of reform and globalisation thereafter, Shanghai became China's centre of economy, technology and culture.

Today, the city continues to grow apace, with new underground stations, crisscrossing highways, and a whole new city of modern skyscrapers in Pudong.

THE PLEASURES OF ORIENTAL PARIS

A city that never sleeps would be taking it too far, but Shanghai, with its lively atmosphere and rich heritage, certainly promises much for the visitors to explore.

A trip to Shanghai is never complete without a stroll along the famous Bund (外滩). Situated along the east bank of Huangpu River (黄浦江), here, one can enjoy the bracing air while immersing in the sights of the many interesting activities along the river.

From the Bund, marvel at the breathtaking skyline of Pudong (浦东), Shanghai's modern financial and business hub situated on the opposite bank of the river. You can't miss the sight of the Oriental Pearl TV Tower (东方明珠电视塔), which has now become the symbol of Shanghai. Standing at 468 metres high, it is the tallest TV tower in Asia and the third highest in the world. Not far from it is the Jinmao Tower (金茂大厦), an 88-storey landmark skyscraper. Along with the Oriental Pearl TV Tower, it forms the centerpiece of Shanghai's modern skyline.

Take the metro or tourist sight-seeing tunnel and head across the river for a sweeping view of the Bund from Pudong. A wealth of grand stately buildings in European architectural styles of the 1920s and 1930s line the broad boulevard, which was once the most important financial street in Asia.

Stop by the Grand Hyatt Hotel, located on the 53rd to 87th floors of the Jinmao Tower. Have a drink at their sky lounge, Cloud 9, while enjoying the panoramic view of Shanghai from 87 storeys high.

If time allows, do stay till sunset. The Western architecture lighting up at dusk and the neon lights of the commercial houses behind form a mesmerising nightscape of the Bund. Cross back over to the Bund and take in the sight of Pudong's illuminated skyline.

For something special, dine at the highly-acclaimed M on the Bund. Located at the pinnacle of the historic Nissin Shipping Building (日清大楼), constructed in 1921, along the Bund, M overlooks the quintessential Shanghai view - the historic Bund on one side of the river contrasting with the futuristic Pudong skyline on the other, serving as a reminder of how far Shanghai has come. Diners sample a creative menu of modern European cuisine in a warm, refined atmosphere. This is certainly fine dining at its best. Reservations are recommended, especially for tables on the roof terrace.

Above: The buzz and neon lights along Nanjing Road

Right: Colour Zone counters with a dazzling array of cosmetics and skin-care products

Of course, Shanghai is not all about the Bund. The other great attraction of Shanghai is the old town, in particular the renowned Yuyuan Garden (豫园) and its surrounding teahouses and bazaar. The walled garden is the largest of Shanghai's ancient gardens with architectural styles of the Ming and Qing dynasties. Pathways wind through rock gardens and bamboo stands, and stone bridges cross pools filled with bright carp. Along the way, you'll find many snack food stalls, teahouses, and restaurants serving various local delights.

Also, take a stroll around the former French concession for a taste of colonial Shanghai, with its tree-lined streets, 1930s architecture, cafes and bars. At its western end is a collection of Western-style restaurants and bars.

Don't forget to include a visit to Xintiandi (新天地), a highly popular and fashionable area cultivated in the redeveloped traditional Shikumen (石库门) houses. These Shikumen or stone gate houses reflect the architectural styles of both the east and west from the 1920s and 1930s, and were once mansions housing more than one family under the same roof. Today, every building has a modern interior, home to international art galleries, designer and lifestyle boutiques, restaurants, cafes and bars. Dine on international cuisine or unwind at one of the contemporary bars in the courtyard of these houses.

THE SHOPPING PARADISE

For the shopaholics and fashionistas, Shanghai does not disappoint. Hailed as "the Shopping Paradise", Shanghai offers a wide selection of shops and stores showcasing various fashion styles and products.

Nanjing Road (南京路), considered the No. 1 Commercial Street in China, is a good place to start. While in recent times it appears a little dated and is said to be outdone by newer and larger shopping malls, Nanjing Road still best displays the energy of Shanghai with its bustling stores and lively atmosphere. Start from People's Square (人民广场) and walk eastward towards the Bund along Nanjing East Road (南京东路). Part of this road has been converted into a pedestrian street, but that doesn't make it any less crowded! At night, the neon-lit signboards and buildings illuminated in various colours add liveliness and excitement to the mood.

BE SURE TO CHECK OUT CHINA'S LEADING HOME-GROWN COSMETICS BRAND, COLOUR ZONE. THERE ARE MORE THAN 50 COLOUR ZONE COUNTERS LOCATED THROUGHOUT SHANGHAI CITY FOR YOU TO CHOOSE FROM!

Yuyuan Garden, reminiscent of the Ming and Qing dynasties

Huaihai Road (淮海路), Nanjing Road's richer and modern sibling, is celebrated for its elegant and upmarket malls. Here, the latest fashion collection, newest beauty range and top-end designer boutiques are showcased in these malls.

The recently opened underground shopping mall at People's Square metro station is a convenient option for affordable shopping. This interchange station with over 20 exits boasts numerous stalls selling clothes, accessories and beauty products. Be sure to check out China's leading home-grown cosmetics brand, Colour Zone, which offers a dazzling array of high quality cosmetics products. If you miss the Colour Zone outlet at People's Square metro station, don't worry, there are more than 50 counters located throughout Shanghai city for you to choose from!

For a higher dosage of retail therapy, stop by CharmingLady, the sister brand of Colour Zone, which is conveniently located near Exit 1 of People's Square metro station. This flagship image store houses the brand's latest cosmetics colours and skin-care range targeted at more matured ladies.

A GASTRONOMIC ADVENTURE

There is no lack of dining options in Shanghai. Most shopping malls come with a foodcourt, so you can grab a bite even in the midst of your shopping!

Nonetheless, Shanghai is celebrated for its variety of cuisines from all over the world. Head to Yuyuan Garden or its surroundings for traditional Chinese fare. If Western cuisine is what you crave, set out to the French Concession or Xintiandi, where you may find French, German and Italian gastronomy, among many others.

Xintiandi is also well-known for its chic and open-air bars, which attract largely the expatriates and more affluent locals. A trendy yet laid back place to chill out for evening or after-dinner drinks.

Hengshan Road (衡山路), close to Huaihai Road, is where Shanghai's first bars opened, and it remains one of the liveliest and busiest places at night. Here, there are bars in great numbers located side by side, ranging from the brash to the more intimate, and from the casual and hip to the posh and exclusive. Abound to suit your every mood.

Wine and dine on a variety of fine culinary delights in Shanghai

THE ART OF LIVING

Shanghai has plenty of hotels in the upper price brackets, ranging from the opulent and luxurious to the heritage and Art Deco inspired. The very luxurious Grand Hyatt in the spectacular Jinmao Tower is recommended if budget is of no concern. If you are looking for an equally lavish option across the Huangpu River in Puxi (浦西), go for the JW Mariott Hotel located at People's Square, right in the centre of Shanghai.

For a taste of 1930s Shanghai, the Park Hotel is a good choice. Built in 1934, the hotel is one of Shanghai's finest examples of Art Deco architecture, and guests are sure to be charmed by its grandeur. Another alternative is the elegant Ruijin Guesthouse in the French Concession, a series of old mansions converted into rooms amid a gorgeous garden of old growth trees and well-tended, verdant lawns. Residing at the Ruijin allows travelers to adjust to a more settled pace compared to the hustle and bustle gripping the rest of town. For those who have fallen in love with the Shikumen houses at Xintiandi, 88 Xintiandi will be ideal. With views over the lake and Shikumen houses, this 53-room hotel offers considerable charm and intimacy, making it one of Shanghai's choicest and most exclusive settings.

If you are looking for somewhere easier on the wallet, try the Metropole Hotel or Broadway (Shanghai) Mansions. Both feature classic, 1930s architectural styles and are just a short stroll away from the Bund. Alternatively, opt for the Astor House Hotel on Nanjing East Road. This hotel, built in the 19th century, is Shanghai's first hotel and still retains much of its historic flavour. Or go for the Donghu Hotel, consisting of nine historic buildings surrounding a beautiful garden. Located in the French Concession, it'll be a good choice especially if you like to be close to the premier shopping district of Huaihai Road! ❖

QUICK FACTS

Flight duration

A direct flight between Singapore and Shanghai Pudong International Airport takes approximately 5.5 hours

Time zone

GMT +8 (there is no time difference between Singapore and Shanghai)

When to go

Spring (April to mid May) and autumn (late September to mid November) are probably the best times to visit weather-wise. Summer is hot and humid with temperatures as high as 40°C, while winter is grey and chilly with temperatures falling below 0°C.


GLAMOUR
COLOUR
LIP ROUGE
CHARMINGLADY
LONG-LASTING COLOUR · INTENSE HYDRATION · 8 ALLURING SHADES
CHARMINGLADY

ABOUT **BEAUTY CHINA**

An integrated cosmetics company in Mainland China, Beauty China owns and manages two cosmetics brands - "Colour Zone" and "CharmingLady" - as well as a cosmetics production facility in Zhuhai to manufacture products under our own brands and third-party products.

A mass-market brand, Colour Zone targets young and trendy women between the ages of 18 and 28 years. Developed in 1996, Colour Zone has won numerous industry awards since its inception.

With approximately 500 stock-keeping units ("SKUs") of colour cosmetics and skin-care products, Colour Zone products are retailed in 1,805 outlets (as at 31 December 2008), which are mainly dedicated counters in department stores and standalone specialty stores in every province throughout China, as far reaching as Xinjiang, Tibet and Inner Mongolia. The retail outlets are owned and operated by more than 60 customers of Beauty China, who are independent distributors and retailers.

To broaden the target consumer group of its products, Beauty China launched a new "CharmingLady" brand of colour cosmetics and skin-care products in December 2004. CharmingLady targets ladies above the age of 25 with relatively higher disposable income and is retailed at 444 points of sales (as at 31 December 2008).

BEAUTY CHINA DESIGNS AND CONCEPTUALISES THE WAY OUR COLOUR ZONE AND CHARMINGLADY PRODUCTS ARE PACKAGED, MARKETED AND SOLD, AND ENSURES THAT THESE ARE ADOPTED CONSISTENTLY BY ALL OUR DISTRIBUTORS AND RETAILERS. NEW PRODUCTS ARE REGULARLY DEVELOPED BY PARTNERING OVERSEAS COSMETICS RESEARCH AND DEVELOPMENT EXPERTS TO MEET DIFFERENT CONSUMER NEEDS IN THE LOCAL CHINESE MARKET.

In 2007, Beauty China started the commercial operation of our own research and development centre as well as expanded into the production of cosmetics products in Mainland China by acquiring a GMP-certified production facility.

According to Euromonitor[1], Beauty China's market share reached 4.0% and was ranked number 3 in the colour cosmetics industry of Mainland China in 2007, ahead of internationally renowned cosmetics companies such as Shiseido, Revlon and Kose. ❖

[1]Taken from the report "Colour Cosmetics in China" issued by Euromonitor in June 2008.

BRAND **BUSINESS**

Beauty China owns and manages two cosmetics brands in China:

colour zone

Our flagship brand of colour cosmetics and skin-care products, Colour Zone, was started in 1996, targeting young and trendy women in Mainland China aged between 18 and 28 years. The distinctive brand image of Colour Zone finds its niche in appealing to the mass market of China. The brand's range of more than 500 varieties of products has won over consumers across China.

AWARDS

2003 and 2004 "The Ten Best (Local) Brands" in the Chinese cosmetics industry
China Product Safety Monitoring and Testing Centre, China Association of Industry Investigation and Statistics and China Association of Famous Brands

"2005 Top 10 Best Selling Brands"
The only Chinese brand to win this Award from China General Chamber of Commerce and China National Commercial Information Center

"2005-2006 Most Popular Make-up Brand"
ICN China, China National Commercial Information Center and Euromonitor

"2007 Most Influential Colour Cosmetics Brand"
The Organising Committee of the 12th China Beauty Expo

"2007 Best Value Brand" in the Chinese beauty and cosmetics industry
The Chamber of Beauty and Cosmetics Industry of The Chinese Federation of Industry and Commerce

INDUSTRY RANKING

Ranked number 4 with a market share of 3.9% by retail value in 2007
"Cosmetics and Toiletries in China" report issued by Euromonitor in June 2008

PRODUCT VARIETY AND DISTRIBUTION

(as at 31 December 2008):

- More than 500 individual end products or SKUs
- Number of points of sales: 1,805 throughout China
- Number of independent distributors: Approximately 60

CHARMINGLADY

A mid-range priced brand launched in December 2004, CharmingLady targets ladies above the age of 25 who are looking for higher quality, and yet affordable, cosmetics products.

Market research has shown that women above the age of 25 have higher disposable income and along with it, higher aspirations and expectations, especially when it comes to personal beauty and aesthetics.

That is exactly why we commissioned a team of renowned Japanese cosmetics specialists to develop a new range of cosmetics and dermatological products under our CharmingLady brand.

AWARD

"2007 Most Influential Colour Cosmetics Brand"
The Organising Committee of the 12th China Beauty Expo

"Top Ten Most Influential Brand"
The Organising Committee of the 13th China Beauty Expo

"2008 China's New Cosmetic Brand"
The Organising Committee of the 13th China Beauty Expo

PRODUCT VARIETY AND DISTRIBUTION

(as at 31 December 2008)

- More than 200 individual end products or SKUs
- Number of points of sales: 444 in Mainland China, separate from Colour Zone's
- Number of independent distributors: Approximately 50

MANUFACTURING **BUSINESS**

In October 2007, Beauty China acquired a new EU and US Good Manufacturing Practice ("GMP")-certified cosmetics manufacturing facility in Zhuhai, Guangdong Province, for the production of our Colour Zone and CharmingLady brands as well as for OEM/ODM customers in China and overseas.

This marked a significant milestone for Beauty China, as we moved upstream into the manufacturing of cosmetics products, propelling the Group to become an integrated cosmetics player.

Having our own GMP-certified production facility reinforces the Group's capability to produce products of international standards and strengthens consumer confidence in the Group's brands. It is also a strategic move to diversify the business risk of the Group's reliance on a single source of income, and to create a new revenue stream with third-party OEM/ODM manufacturing. With our EU and US GMP-certified facilities, Beauty China is one of the very few cosmetics manufacturers in China able to satisfy quality conscious OEM and ODM customers.

Our existing OEM customers are mainly mid-tier brands in the US, Europe and Asia, while potential customers whom we are in talks with include top-tier brands and companies.

In January 2009, the Group inked a three-year agreement with major Japanese cosmetics producer JO Cosmetics Co. Ltd. to manufacture, use and sell certain finished and semi-finished cosmetics products, under the technical expertise and patents owned by JO Cosmetics.

With a track record of more than 20 years, JO Cosmetics is a leading Japanese R&D specialist in the full range of colour cosmetics, skin-care, hair-care, body-care and toiletry products. Using its proprietary formulae and patented composites, JO Cosmetics currently produces finished cosmetics products in Tokyo and Saitama on an OEM basis for more than 100 customers, including major cosmetics companies and well-known international brands.

With the signing of the deal, Beauty China is now JO Cosmetics' first and exclusive manufacturing and distribution partner in the PRC. This partnership will enable Beauty China to leverage on JO Cosmetics' network to expand our OEM business to major cosmetics companies and well-known international brands, as well as tap on its R&D expertise to improve the quality of our own Colour Zone and CharmingLady brands.

The Group has also recently completed the construction of a two-storey GMP-compliant powder production plant to manufacture cosmetics powder, using JO Cosmetics' proprietary know-how, for our own brands and OEM customers in the near future. This integration aims to strengthen the Group's supply chain, secure customers' relationship and improve margins. ❖

BOARD OF **DIRECTORS**




WONG HON WAI
CHAIRMAN AND MANAGING DIRECTOR

Mr Wong Hon Wai founded the Group in 1997 and is the Chairman and Managing Director of the Company. He is responsible for the business development and financial management of the Group, and also oversees the design and development of the Group's products.

Mr Wong was employed as an Administrative Assistant with Wai Shun Trading Company Limited from 1978 to 1982. He subsequently joined Hang Fung Chemicals Trading Ltd in 1983 as an Administrative Officer, and was holding the appointment of Assistant Sales Manager when he left in 1989.

From 1990 to 1994, Mr Wong ran his own company named Choi Sing Hong, a wholesale business in lighting products in Hong Kong and China, as well as set up a lighting products processing factory in Jiangmen. Mr Wong then joined Guangzhou Yashina Cosmetics Pte Ltd as Market Development Manager from 1995 to 1996 and was in charge of the cosmetics products distribution in China. Mr Wong graduated from senior middle school in Hong Kong.

TSIM PONG KIT
EXECUTIVE DIRECTOR

Mr Tsim Pong Kit is the Group's Marketing Director and is responsible for the formulation and execution of the Group's business development, sales and marketing plans.

Mr Tsim was a teacher in Buddhist Tai Kwong Middle School from 1985 to 1990. Between 1991 and 1993, he worked in Sui On Trading Company as a Business Manager in-charge of key accounts in Hong Kong and China. He then joined China Trade Division of WKK International Trading Company in 1994, as Product Manager in charge of setting up and developing its retail and sales network in China.

Mr Tsim subsequently joined Trueford Industrial Company Ltd, as the Regional General Manager from 1995 to 1999. He moved on to Shenzhen CKK Trading Company Ltd as its Regional General Manager in 2000 to oversee its sales and marketing activities in the eastern coastal and northern regions of China, before joining the Group in 2001.

Mr Tsim holds a Bachelor of Law Degree from the Beijing University, a Bachelor of Arts Degree, as well as a Diploma in Education, both from the Chinese University of Hong Kong.

WONG HON KIN
EXECUTIVE DIRECTOR

Mr Wong Hon Kin was appointed as Executive Director on 23 July 2008 and is in charge of the Group's manufacturing business and general management of its operation in China.

Mr Wong has extensive experience in brand management and the cosmetics industry in China. Between 1994 and 1999, he was the Deputy General Manager of Guangzhou Yashina Cosmetic Pte Ltd, overseeing the production and distribution of cosmetics products in China. In 2000, Mr Wong joined the Harbin Xiongdi Jiasi Group, one of the largest furniture chain stores in the northeast region of China, as Senior Consultant assisting in the development of its retail chain network and strengthening of its brand awareness.

Prior to joining the Group, Mr Wong was the General Manager of Beijing Dongcai Daily Chemical Company Limited since 2004, a Japanese joint-venture supplying cosmetics materials and semi-finished products where he was responsible for production and factory management. Mr Wong graduated from Senior Middle School in Hong Kong and is the elder brother of Mr Wong Hon Wai.

LOW WAI CHEONG
LEAD INDEPENDENT DIRECTOR

Mr Low Wai Cheong was appointed as the Company's Lead Independent Director on 18 January 2007. He has been on the Board as an Independent Director of the Company since 25 September 2003.

Mr Low is a practising advocate and solicitor of the Supreme Court of Singapore, and heads the Corporate Finance and Securities Practice at Singapore law firm Chris Chong & C T

From left
Wong Hon Wai
Tsim Pong Kit
Wong Hon Kin
Low Wai Cheong
Hung Tak Chow Charles
Tong Hing Wah
Lam Yan Kan Dominic

Ho Partnership. He is also a trainer / lecturer for corporate governance courses conducted by the Singapore Chinese Chambers Institute of Business.

Mr Low graduated from the National University of Singapore with a Bachelor of Laws and a Masters of Law degree. Mr Low is also a non-practising solicitor of the Supreme Court of England and Wales, and of the Supreme Court of New South Wales, Australia.

HUNG TAK CHOW CHARLES
INDEPENDENT DIRECTOR

Mr Hung Tak Chow Charles was appointed as an Independent Director of the Company on 25 September 2003. He is currently the Chairman of both of the Company's Nominating and Remuneration Committees.

In 1989, Mr Hung joined Cambridge Technology Group as Consultant. In 1990, he joined Goldman Sachs and was subsequently appointed Vice President. From 1995 to 1996, he joined Merrill Lynch as Vice President. In 1996, he joined Peregrine Management Limited as Director, Group IT Head. In 1998, he was appointed as the Regional IT Head of BNP Prime Peregrine. He joined Prudential Corporate Asia as the Regional IT Director in 1999 and was subsequently appointed as Senior Vice President and member of the Board of Directors of PCA Life Japan, a subsidiary of Prudential PLC, from 2004 to 2006.

Mr Hung is currently the Chief Administration Officer and Senior Vice President of AIA China, an AIG company.

Mr Hung graduated with a Masters of Engineering degree from Cornell University and a Bachelor of Science degree from University of Arizona.

TONG HING WAH
INDEPENDENT DIRECTOR

Mr Tong Hing Wah was appointed one of the Independent Directors on 25 September 2003. He is currently the Chairman of the Company's Audit Committee.

Between 1993 and 1998, Mr Tong was employed in Ernst & Young as an auditor in the Audit and Business Advisory Services Department, and his last held position in Ernst & Young was Senior Auditor. In 1998, he joined Cummings International Limited as its Financial Controller and Company Secretary. In 1999, he became the Chief Financial Officer of China Agrotech Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange.

Mr Tong graduated from Hong Kong Polytechnic with a Bachelor of Arts in Accountancy. He is an Associate Member of Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants.

LAM YAN KAN DOMINIC
INDEPENDENT DIRECTOR

Mr Lam Yan Kan Dominic was appointed one of the Independent Directors on 1 January 2008. He is currently the Managing Director of both Mitchell Elliot (Singapore) Pte Ltd with the principal business of trading engineering products in Europe, Far East region and China, and Solar Industrial Co Ltd with a plant in Dongguan to manufacture electric machines.

Mr Lam started his sales and marketing career with a few multinational companies, including Glaxo (Hong Kong) Limited, Hong Kong Screws and Fasteners Company Limited and Siddons (Hong Kong) Limited, from 1971 to 1977. He then joined Mitchell Elliott (Hong Kong) Company Limited as Sales Manager and was subsequently promoted to Director and General Manager. In 1983, Mr Lam was seconded to Singapore as Head of T.L. Elliott (Far East) Ltd which was renamed as Mitchell Elliot (Singapore) Pte Ltd after its buy-out from the United Kingdom headquarters in 1986. He also became Managing Director of Solar Industrial Co Ltd in March 2008.

Mr Lam holds a Diploma of Business Studies from the Association of Business Executives and Diploma of Business Administration from the Institute of Commercial Management in United Kingdom. He is a member of the British Institute of Management and the Singapore Institute of Management.

SENIOR MANAGEMENT

WONG KIN TAK
FINANCIAL CONTROLLER

Mr Wong Kin Tak is the Group's Financial Controller and Joint Company Secretary. He is responsible for all aspects of financial planning, budgeting and control management of the Group.

Mr Wong joined Ernst & Young in 1994, and held the appointment of Senior Auditor when he left in 1999. He subsequently joined CyberCity Group as Assistant Vice-President involved in investments, mergers and acquisitions transactions. From 2001 to 2002, he was the Financial Controller of Natural Beauty Bio-Technology Limited, a company listed on the Hong Kong Stock Exchange. Mr Wong subsequently left to join Eastern Elegance Cosmetics Group, prior to joining the Group in 2003.

Mr Wong holds a Bachelor of Business Administration majoring in Accounting from the Hong Kong Baptist University. He is an Associate Member of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants.

PEI JIE
DIRECTOR OF BRAND SALES

Mr Pei Jie is the Director of Brand Sales responsible for overseeing the sales activities of the Group's Colour Zone brand and managing distributors' retail operations in Mainland China. He also assists the Marketing Director in developing sales plans and marketing policies.

Mr Pei held the position of Technician in Bangbu Candy Factory from 1991 to 1993. He then joined Griffith Laboratories Zhuhai Co Ltd as Technical Supervisor and was promoted to Purchasing Manager before he left in 1999. He was Sales Manager of Zhuhai Xincai Cosmetics Co Ltd till 2000, prior to joining the Group in 2006.

Mr Pei holds a Bachelor degree in Marketing from Anhui University and a Diploma in Food Engineering from Bangbu Food Industry College.

YU ZUO QIANG
DIRECTOR OF BRAND SALES

Mr Yu Zuo Qiang is the Director of Brand Sales responsible for overseeing the sales activities of the Group's CharmingLady brand and managing distributors' retail operations in Mainland China. He also assists the Marketing Director in developing sales plans and marketing policies.

Mr Yu was employed as Sales Representative by Zhuhai Xinli Paper Factory from 1991 to 1994. He then worked for Zhuhai Aojin Trading Limited as Project Manager from 1996 to 2001 and for Zhuhai Shangrui Trading Limited as Business Development Manager from 2002 to 2003. He was Regional Marketing Manager for Zhongshan for Hainan Yangshengtang Limited from 2004 to 2005 before joining the Group in 2006.

Mr Yu graduated from Zhuhai Broadcast Television University majoring in Business Administration.

DU QIONG
FACTORY MANAGER

Ms Du Qiong is the Factory Manager in charge of the general management of the Group's manufacturing facility in Zhuhai, China.

Ms Du worked for Hubei Shashi City Citric Acid Factory as Quality Control Supervisor from 1992 to 1997. She was later employed by Zhuhai City Chuangbao Co, Ltd as Production Planner until she left to join Zhuhai City Lishenglong Electric Machinery Ltd as Production Supervisor in 1999. Ms Du was Factory Manager of Zhuhai City Colour Cosmetic Factory from 2001 to 2003 and Deputy Factory Manager of Zhuhai Panasonic Battery Co, Ltd since 2004, before joining Zhuhai City Mei Zhi Hui Ri Hua Co, Ltd, the Group's newly-acquired production arm, in April 2007.

Ms Du graduated from Zhengzhou University of Light Industry with a Bachelor degree in Fine Chemistry.

LUI YUN BO
QUALITY CONTROL MANAGER

Mr Lui Yun Bo is the Quality Control Manager of the Group. He supervises the Group's Quality Control Department, and ensures the consistency in quality standards of both incoming materials and finished products is upheld.

Prior to joining the Group in 1997, he worked in Guangxi Bobai Plastic Products Factory as Production Supervisor since 1989. From 1995 to 1996, he was employed by Yulin Yili Daily Chemical Factory as Deputy Factory Manager.

Mr Lui graduated from Guangxi University with a Bachelor of Science in Chemistry.

ZHOU LI
PRODUCT DESIGN MANAGER

Mr Zhou Li is responsible for overseeing the design of products, store-front and print advertisement of the Group's brands.

Mr Zhou was employed as a Programmer in Zhuhai Hualan Development Ltd in 1996. He subsequently joined Zhuhai Guanxiu Network Co., Ltd as a Graphic Designer in 1998. Then he worked in Zhuhai Beizheng Clothing Co., Ltd in 1999 as a Plotter of posters and print advertisements. In 2000, he joined Zhuhai Jiabao International Ltd as an in-house Designer, prior to joining the Group in 2001.

Mr Zhou graduated with a Diploma in Computer Application from Zhuhai Broadcast Television University.

NG SAI CHEONG
ASSISTANT FINANCIAL CONTROLLER

Mr Ng Sai Cheong is the Assistant Financial Controller in charge of the matters of accounting, finance and corporate governance of the Group.

Mr Ng was trained as a professional accountant in Lee Sik Wai & Co and Charles Chan, Ip & Fung CPA Limited from 1998 to 2000. Thereafter, he worked for Ernst & Young since 2000 and held the position of Senior Auditor before he joined the Group as Accounting Manager in 2003. Mr Ng was promoted to the Group's Assistant Financial Controller in 2006.

Mr Ng graduated with a Master of Corporate Governance from The Open University of Hong Kong and a Bachelor of Business Administration from Hong Kong University of Science and Technology. He is currently a Fellow of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators.

DISTRIBUTION NETWORK

As at 31 December 2008

- colour zone — Highest number of outlets in Fujian, Guangdong and Hebei
- CHARMINGLADY — Highest number of outlets in Zhejiang, Henan and Hubei

Clear White Skin-care

Get flawless, radiant skin with Colour Zone Clear White skin-care range.

Enriched with Vitamin C, mineral extracts and multiple active whitening ingredients, this easily-absorbed formula provides intensive whitening and moisture locking benefits to your skin. Deeply hydrated and renewed, your skin becomes noticeably fairer overtime, leaving you with a flawless complexion.

colour zone

Dermatologist Tested. 100% Fragrance-Free.
Formulated for Asian skins.

YOUTH RADIANCE SKIN-CARE

With active ingredients of licorice extract, moisture-locking elements and essential hydrating minerals, CharmingLady's Youth Radiance skin-care range revives and renews dull, uneven and dehydrated skin, leaving your face velvety smooth with a radiant glow. At the same time, our gentle formula hydrates your skin and prevents moisture-loss. Bid farewell to dull, uneven skin tone, and say hello to radiant, youthful-looking skin.

BRINGING OUT THE ELEGANCE AND PERFECTION IN YOU

CHARMINGLADY

BEAUTY CHINA

ANNUAL REPORT 2008

www.beautychinaholdings.com

Operating and Financial Review
Corporate Governance Report
Audited Financial Statements
Statistics of Shareholdings
Notice of Annual General Meeting

the face of COLOUR ZONE

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FINANCIAL HIGHLIGHTS

FINANCIAL SUMMARY

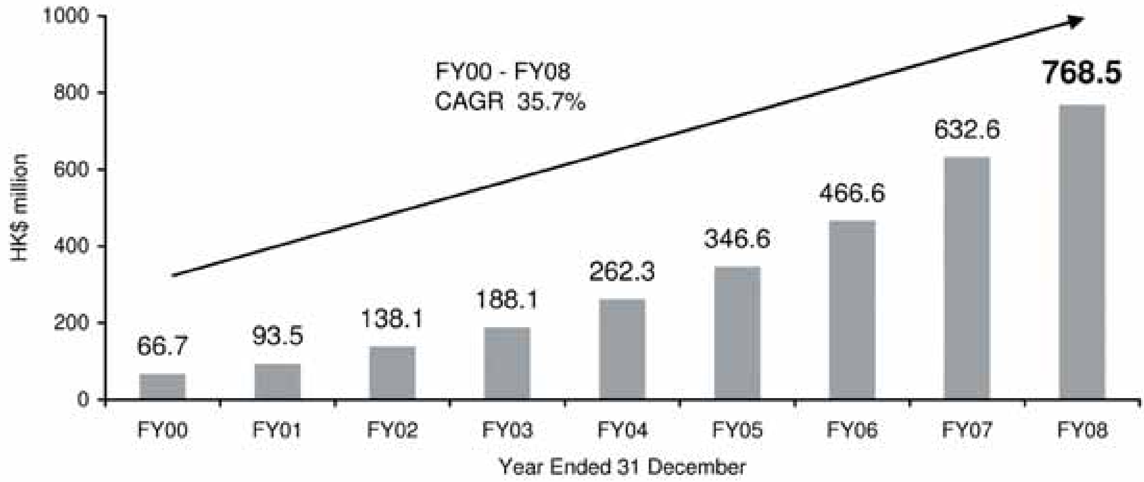
	FY2008 (HK$'000)	FY2007 (HK$'000)	Change (%)
Revenue	768,477	632,576	21.5
Gross Profit	493,105	395,198	24.8
Net (Loss)/Profit	(328,157)	161,863	N.A.
Basic (Loss)/Earnings Per Share (HK cents)*	(92.7)	47.3	N.A.
Fully Diluted (Loss)/Earnings Per Share (HK cents)^	(92.7)	46.7	N.A.

** Based on weighted average issued share capital of 354,126,846 in FY2008 (FY2007: 342,360,620)*
^ Based on weighted average number of issued shares and dilutive potential shares of 354,126,846 shares in FY2008 (FY2007: 346,920,157)

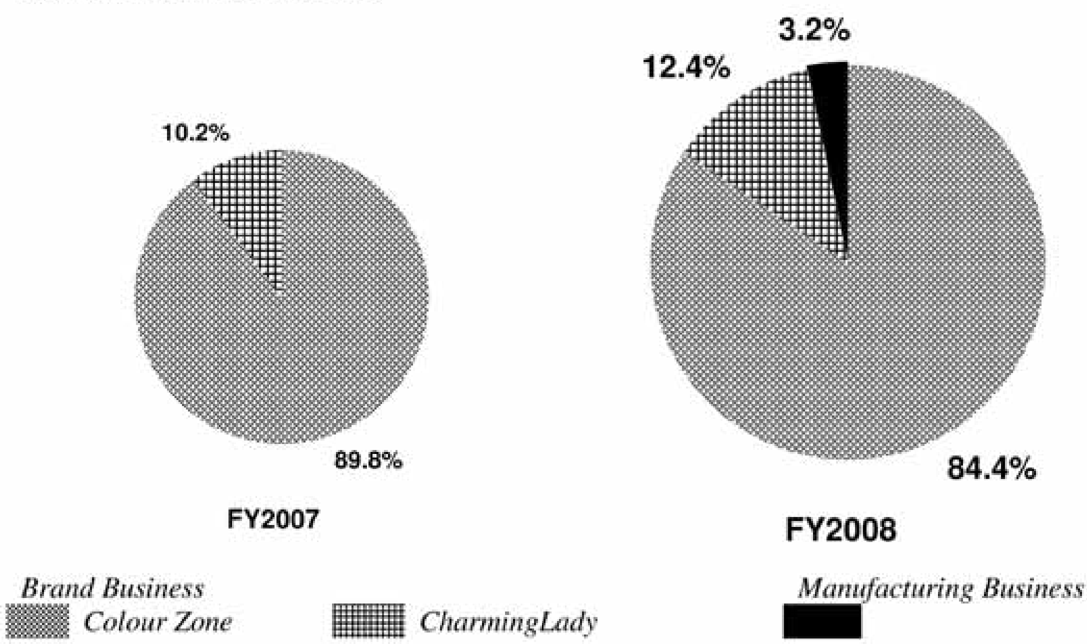
FINANCIAL POSITION

	31 December 2008	31 December 2007
Total Assets (HK$ million)	596.4	902.9
Total Current Liabilities (HK$ million)	230.8	313.9
Total Shareholders' Funds (HK$ million)	365.7	588.9
Net Asset Value Per Share (HK cents)	102.6	172.0
	FY2008	FY2007
Inventory Level (HK$ million)	53.8	39.5
Trade Receivables (HK$ million)	111.5	212.4
Trade Payables (HK$ million)	22.0	59.9
Capital Expenditure (HK$ million)	146.2	284.3

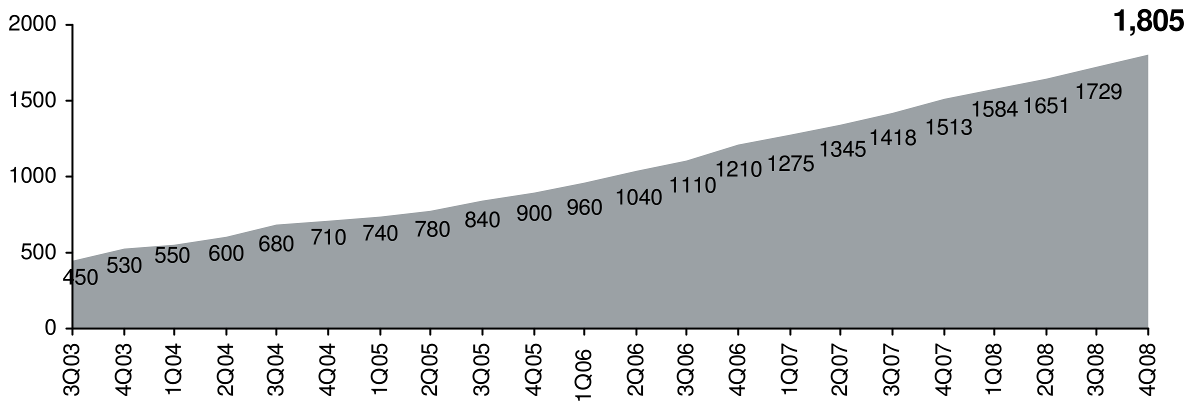
REVENUE



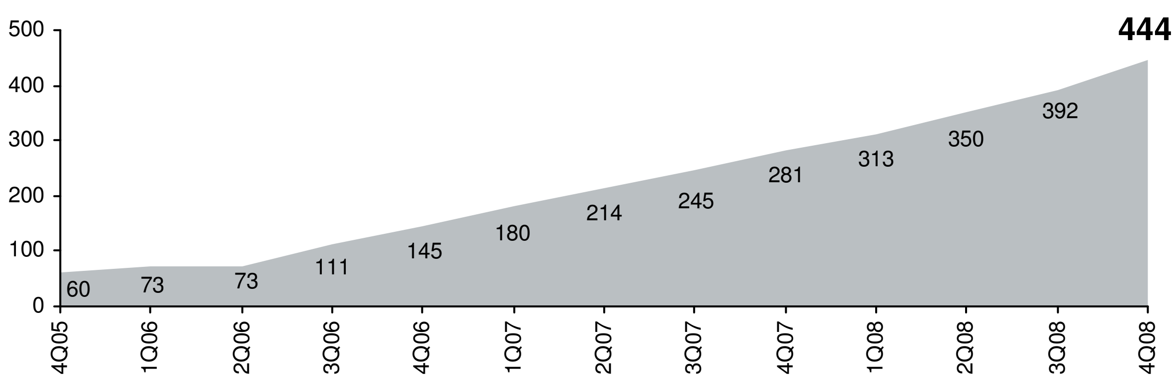
REVENUE BY ACTIVITIES



COLOUR ZONE NETWORK



CHARMINGLADY NETWORK



OPERATING AND FINANCIAL REVIEW

OVERVIEW

An integrated cosmetics company in the PRC, Beauty China generates its revenue from two avenues: (i) the sale of its proprietary cosmetic and skin-care brands, Colour Zone and CharmingLady ("Brand Business"); and (ii) production of cosmetics and skin-care products on an OEM/ODM basis for third party brands ("Manufacturing Business").

The Group's entry into the Manufacturing Business in FY2007 was a strategic move to diversify its reliance on its brands as a single source of income, and to create a new revenue stream with third-party OEM/ODM manufacturing.

In FY2008, Beauty China's Brand Business contributed 96.8% of the Group's revenue, whilst its new Manufacturing Business accounted for the remaining 3.2%. Of the Brand Business sales, Colour Zone continued to be the major revenue contributor, accounting for 87.1%, with CharmingLady contributing the remaining 12.9%.

BRAND BUSINESS

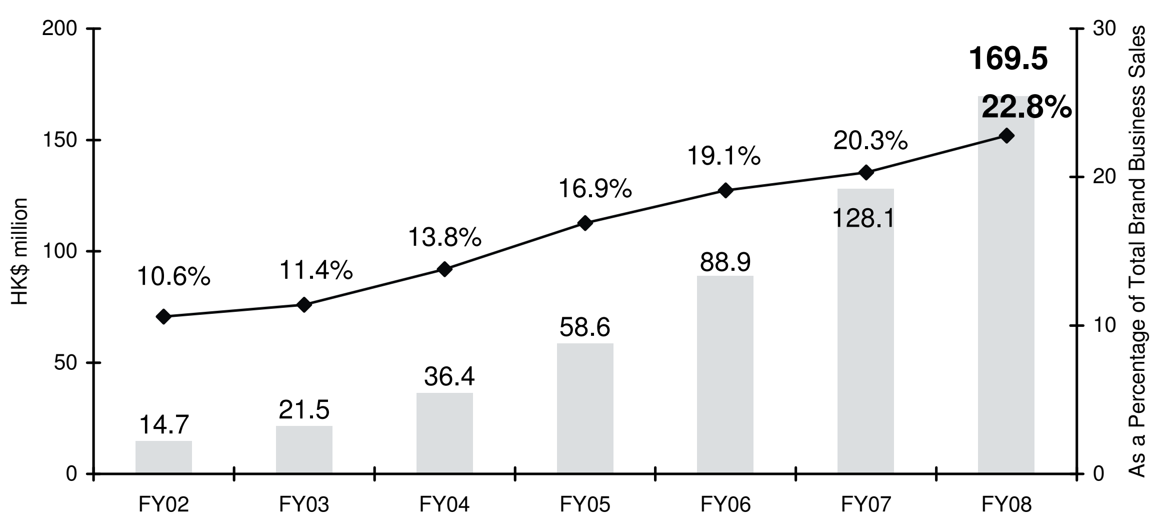
As at 31 December 2008, there were 1,805 Colour Zone points-of-sale ("POS") and 444 CharmingLady POS, managed by the Group's direct customers who are regional distributors and/or retail operators, throughout China. Collectively, the Group's network of 2,249 POS is a marked increase from its 1,794 POS as at end FY2007.

In terms of profitability, the Brand Business segment achieved a gross profit of HK$480.7 million in FY2008, compared to HK$395.2 million the previous year. Benefiting from the general fall in costs of materials, gross profit margin improved from 62.5% to 64.6%.

Notably, a key success factor of Beauty China's brand business is its strategic investment in advertising and promotional ("A&P") activities. A&P costs grew 32.3% year-on-year to HK$169.5 million in FY2008, representing 22.8% of Brand Business sales.

The higher A&P costs in FY2008 were partly due to the launch of a series of advertising campaigns with Colour Zone's new ambassador, Angela Chang (张韶涵), a well-known artiste and singing diva, as well as the reinforced marketing events to promote the new product image for CharmingLady. The Group also invested in large quantities of private injection moulds for the supply of specialised packaging materials and containers to strengthen the image of its brands.

Advertising and Promotion Expenditure



The global economic slowdown has affected the Group's business. In 4Q 2008, the Group experienced an unexpected decline in sales as consumers began to tightened their belts because of the global recession. Brand Business revenue in 4Q 2008 registered a slight decrease of 2.2% to HK$206.7 million, compared to HK$211.3 million in the previous corresponding quarter. This was despite the fact that the Group added 128 POS in the same quarter.

Notwithstanding the deepening recession which has weakened consumer sentiments and created a tougher business environment for the Group, Colour Zone and CharmingLady will carry on to be the mainstay of Beauty China's business.

Given the high quality and affordability of its cosmetics and skin-care products, Beauty China is confident that its two award-winning brands will remain attractive to the mass market.

MANUFACTURING BUSINESS

Since 1Q 2008, the Group's new Manufacturing Business has been providing a new and growing revenue stream. The Group's OEM/ODM service – which provides high quality GMP-certified products at lower cost compared to developed countries – has slowly but surely been gaining traction.

In FY2008, the Manufacturing Business contributed HK$24.4 million in revenue and enjoyed a steady gross profit margin of 50.8%. Average utilisation (based on one work shift) has been improving every quarter.

Production

	1Q 2008	2Q 2008	3Q 2008	4Q 2008
In-house Products	64%	63%	62%	59%
OEM Products	36%	37%	38%	41%

Utilisation Rate

	1Q 2008	2Q 2008	3Q 2008	4Q 2008
Average Utilisation (based on 1 shift labour)	24%	39%	51%	56%

By the end of FY2009, the Group also plans to shift most of the production of its two brands in-house, to have greater control over its product quality. Even after meeting its internal needs, the Group will have more than sufficient capacity to tap on the OEM/ODM cosmetics market.

With the economic slowdown, it is hoped that international cosmetics brands will outsource more of their production to contract manufacturers like Beauty China who offer cost advantages without compromising on quality.

In January 2009, the Group gained a significant foothold in the OEM/ODM cosmetics market when it inked an exclusive three-year agreement with major Japanese cosmetics producer JO Cosmetics Co. Ltd. ("JO Cosmetics") to manufacture, use and sell certain finished and semi-finished cosmetics products, under the technical expertise and patents owned by JO Cosmetics.

With the signing of the deal, Beauty China is now JO Cosmetics' first and exclusive manufacturing and distribution partner in the PRC. The Group has recently completed the construction of a two-storey GMP-compliant powder production plant to manufacture cosmetics powder, using JO Cosmetics' proprietary know-how, for its own brands and OEM customers in the near future.

This upstream integration aims to strengthen the Group's supply chain, secure its relationship with its customers and improve its margins.

OPERATING LEVEL

On the operating level, other operating income, which comprised mainly bank interest income, declined to approximately HK$3.2 million in FY2008 (FY2007: HK$9.4 million) due to the fall in average deposit interest rates.

Distribution costs for FY2008 increased by 32.9% to HK$272.9 million (FY2007: HK$205.4 million). The major distribution cost – A&P expenditure for Brand Business – represented HK$169.5 million in FY2008 or 22.8% of Brand Business sales. Since the appointment of Angela Chang as the new spokesperson for Colour Zone brand in 3Q 2008, the Group launched a series of new advertising campaigns to raise brand awareness. Accordingly, A&P expenses in 4Q 2008 increased to HK$65.4 million (4Q 2007: HK$44.1 million), equivalent to 31.6% (3Q 2008: 20.9%) of Brand Business revenue when sales unexpectedly declined.

Depreciation and logistics charges were also major components of distribution costs. Depreciation for product display units, lighting boxes and moulds for FY2008 surged by 64.3% to HK$45.0 million (FY2007: HK$27.4 million), as a result of purchases of product display units and lighting boxes for POS expansion and additional uses of private injection moulds for supplying specialised product packaging. Logistics charges for FY2008 amounted to HK$25.2 million (FY2007: HK$18.2 million) due to increased purchases from suppliers.

Administrative expenses for FY2008 increased by 8.0% to HK$24.1 million (FY2007: HK$22.3 million) in line with the growth in business and additional administration functions for its new Manufacturing Business. Administrative expenses consisted mainly of staff costs, auditors' remuneration, legal and professional fees, depreciation for administration-related fixed assets, office utilities and other general administrative costs.

Other operating expenses for FY2008 increased to HK$8.4 million (FY2007: HK$6.3 million), surged by 49.5%. Other operating expenses included mainly depreciation and amortisation of unutilised portion of the production facility and net exchange loss.

As a result of sluggish repayments from customers since the recent global financial crisis and the publicising of the Company's financial difficulties leading to tense relationship with the Group, an allowance for impairment of trade receivables of HK$217.3 million (FY2007: HK$5.2 million) was made for FY2008. The Group started to experience slower repayments from most customers during 4Q 2008 with weakened consumer spending in China and longer debt collection from retail channels. The progress in collections from customers further deteriorated subsequent to the publicising of the receipt of statutory demand from bank creditors of the Company on 9 March 2009 as disclosed in the announcement dated 12 March 2009. Out of more than 70 customers, the Group has terminated business relationship with approximately 19 small to medium customers who did not demonstrate any intention to repay and is seeking new or existing customers to take over their distribution rights. For most of the remaining customers, the Group has allowed them to continue distributing the Group's products but has ceased supplying them new products except on a partial down-payment or cash-on-delivery basis. The Group 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, the Group made provisions against those trade receivable balances totalling HK$217.3 million, which are past due or considered as uncollectable at the date of issue of the audited financial statements based on management's evaluation on the recoverability from individual trade debtors.

In additions, an impairment loss on land use rights of HK$62.2 million (FY2007: Nil) brought about by the general decline in market value of land in China, an impairment loss on property, plant and equipment of HK$165.5 million (FY2007: Nil), inventory provision of HK$46.7 million (FY2007: HK$0.1 million) and impairment on goodwill of HK$20.4 million (FY2007: Nil) were made in FY2008.

Finance costs for FY2008 increased by 104.2% to HK$7.2 million (FY2007: HK$3.5 million), mainly due to the increase in bank loans to provide adequate working capital for the Group.

No tax expenses were incurred as the Group's profit for FY2008 was solely generated by the Company's wholly-owned subsidiary in Macau which is exempt from income tax under the Offshore Law of Macau.

With reduced revenue growth, additional allowance for impairment of trade receivables and impairment losses recognised, the performance of the Group for FY2008, particularly in 4Q 2008, has been adversely affected. Operating results for FY2008 recorded a loss of HK$321.0 million (FY2007: Operating profit of HK$165.4 million). Nevertheless, the Manufacturing Business has been improving and experienced a marginal operating loss of only HK$0.5 million during 4Q 2008 (4Q 2007: HK$3.8 million), before taking into account the non-cash impairment losses recognised in FY2008 (FY2007: Nil).

In view of the above, a net loss for FY2008 of HK$328.2 million (FY2007: Net profit of HK$161.9 million) was recorded.

FINANCIAL POSITION

As at 31 December 2008, Beauty China's net assets were HK$365.7 million, decreased from HK$588.9 million as at 31 December 2007, after suffering from a net loss of HK$328.2 million in FY2008. Net gearing, as a ratio of total bank debts to total assets, was 26.0% (31 December 2007: 9.5%).

Total capital expenditure for FY2008 was HK$146.2 million, comprising mainly HK$85.5 million (FY2007: HK$47.9 million) on product display units and lighting boxes, HK$24.9 million (FY2007: Nil) on private injection moulds and HK$35.4 million (FY2007: HK$15.3 million) on strengthening product development and manufacturing capability, compared to HK$64.0 million in FY2007 before taking into account the acquisition of its new production facilities. In 4Q 2008, capital expenditure increased to HK$76.7 million, which were spent according to the Group's development plan formulated prior to the outbreak of financial crisis, from HK$15.3 million in 4Q 2007, which represented mostly the additional purchases and higher average cost of product display units and lighting boxes for POS expansion, the investment in private injection moulds for the supply of specialised packaging materials and containers and the construction of a 2-storey GMP-compliant powder production plant for the new alliance with JO Cosmetics.

During FY2008, the Group reported a net decrease in cash and cash equivalents of HK$127.1 million (FY2007: HK$99.0 million), as a result of slower collections from distributors and accelerated payments to suppliers and contractors on request as well as increased capital expenditure.

With the unexpected fall in sales in 4Q 2008 resulting in a higher level of inventories as at 31 December 2008, the inventory turnover period for FY2008 increased. The Group experienced slower repayments from most customers during 4Q 2008 with weakened consumer spending in China and longer debt collection from retail channels. Meanwhile, many suppliers and contractors shortened their credit terms as a result of the economic downturn.

In these difficult times, the Group is aware that it has to balance the need to continually support its customers, with the necessity to press customers for quicker payment to manage the Group's credit risks. Hence, 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. Where appropriate, the Group is also seeking to put in place arrangement for direct collection from the retailers of these customers. The Group is also considering alternative methods in recovering outstanding debts including the set-up of a separate in-house credit control team, the appointment of debt recovery agents and taking legal actions.

STRATEGIES IN CHALLENGING ENVIRONMENT

Looking ahead, Beauty China anticipates that the next 12 months will continue to be very challenging. The tactics to deal with slowdown in consumer demand, trade debtor collections as well as improving cash position to serve bank debts and finance working capital of the Group are key areas of management attention.

To mitigate the impact of the softening economy, the Group has initiated proactive measures such as strengthening cost control and inventory management, cutting budget for capital expenditure and improving communications with distributors and other business associates. In the challenging business circumstances of the unclear near term industry prospect and the Group's limitation on resources, quick management response to the changing environment has become critical. The Group will therefore strengthen its budgeting measures for better planning on capital expenditure, working capital and other cash requirements as well as more regular review on budgets. The Group will also improve its credit control by adopting more stringent procedures for customer assessment, monitoring debt collections and implementing credit terms approved and will enhance its material requirements planning system to effectively manage inventory and payable levels.

While the Group successfully established one of the most extensive cosmetics retail networks in China, the opening of new POS has decelerated due to its recent financial constraint. Nonetheless, the Group will re-launch its expansion plan to widen the distribution network, after recovery from its financial problems, albeit at a slower and more cautious pace, when the PRC cosmetics market continues to offer potential for the long-term growth of its Brand Business. It will also focus on improving its Manufacturing Business, which may see positive developments following its collaboration with JO Cosmetics.

Corporate Governance Report

Beauty China Holdings Limited (the "**Company**") is committed to maintaining a high standard of corporate governance to ensure greater transparency and protection of shareholders' interests. The board of directors of the Company (the "**Board**") is pleased to confirm that the Company has adhered to the principles and guidelines of the Code of Corporate Governance 2005 (the "**Code**"), save for Guideline 3.1 (the Chairman and Chief Executive Officer should in principle be separate persons), the reason for which deviation is explained below.

This report outlines the Company's corporate governance processes and structure, with specific reference to the principles and guidelines of the Code. The Board and the management of the Company (the "**Management**") will continue to uphold the highest standards of corporate governance within the Company in accordance with the Code.

(A) BOARD MATTERS

Board's Conduct of Affairs

Principle 1 : Every company should be headed by an effective board to lead and control the company. The board is collectively responsible for the success of the company. The board works with the management to achieve this and the management remains accountable to the board.

As at the date of this report, the Board comprises the following members:

<u>Executive Directors</u>

Mr Wong Hon Wai (Chairman and Managing Director)
Mr Tsim Pong Kit
Mr Wong Hon Kin (Appointed on 23 July 2008)

<u>Independent Directors</u>

Mr Low Wai Cheong
Mr Hung Tak Chow Charles
Mr Tong Hing Wah
Mr Lam Yan Kan Dominic

Role of the Board

The Board assumes responsibility for stewardship of the Company and its subsidiaries (the "**Group**"). Its primary role is to protect and enhance long-term value and returns for shareholders. It provides entrepreneurial leadership, oversees the business and affairs of the Group, and approves the Group's financial and strategic plans, key business initiatives, major investments and divestments proposals, and funding decisions.

Apart from its statutory duties and responsibilities, the Board has direct responsibility for decision-making in respect of the following corporate events and actions:

(a) monitoring Management performance;

(b) approving broad policies, strategies and objectives of the Group;

(c) nomination of directors to the Board;

(d) appointment of key personnel;

(e) reviewing the financial performance of the Group and implementing policies relating to financial matters, which include risk management and internal control and compliance;

(f) approving annual budgets, major funding proposals, investment and divestment proposals; and

(g) assuming responsibility for corporate governance.

To assist the Board in the execution of the Board's responsibilities, certain functions of the Board have been delegated to three Board committees, comprising of an Audit Committee ("**AC**"), a Nominating Committee ("**NC**") and a Remuneration Committee ("**RC**"). Each of these committees functions within clearly defined terms of reference and operating procedures which are reviewed on a regular basis. The effectiveness of each committee is also constantly being monitored.

The Board met 6 times during the year and as warranted by particular circumstances. Telephonic attendance and conference at Board meetings are allowed under the Articles of Association of the Company. The number of Board and Board committee meetings held during the financial year ended 31 December 2008, as well as the attendance of each member at these meetings, are set out below:

		Board Committee Meetings		
Name of Directors	**Board Meetings**	**Audit**	**Nominating**	**Remuneration**
Mr Wong Hon Wai	6	-	2	-
Mr Tsim Pong Kit	6	-	-	-
Mr Wong Hon Kin*	2	-	-	-
Ms Wong Ka Wai Sandy**	-	-	-	-
Mr Hung Tak Chow Charles	6	6	2	2
Mr Low Wai Cheong	6	6	-	2
Mr Tong Hing Wah	6	6	2	2
Mr Lam Yan Kan Dominic***	6	6	1	-
Total No. of Meetings Held	6	6	2	2

* Mr Wong Hon Kin was appointed as an executive director of the Company on 23 July 2008.
** Ms Wong Ka Wai Sandy resigned as an executive director of the Company on 28 March 2008.
*** Mr Lam Yan Kan Dominic was appointed as an independent director of the Company on 1 January 2008 and as a member of Audit and Nominating Committees on 28 March 2008.

The Company has adopted internal guidelines setting forth matters which require Board approval. Matters which are specifically reserved to the full Board for decision are those involving interested person transactions (including, among others, conflict of interest issues in relation to substantial shareholders and directors of the Company), material acquisitions and disposal of assets, corporate or financial restructuring, share issuance and dividends, and financial results and corporate strategies. Each Board member makes decisions objectively in the interests of the Group.

A formal letter is sent to newly-appointed directors upon their appointment explaining their duties and obligations as director of the Company. All newly-appointed directors are briefed on the business activities of the Group and its strategic goals, and undergo an orientation program which includes visits to the Group's operating facilities to gain a better understanding of the Group's business operations and governance practices. Directors who are first-time directors, or who have no prior experience as directors of a listed company, also undergo briefings on the roles and responsibilities as directors of a listed company.

The directors are provided with continuing education in areas such as directors' duties and responsibilities, corporate governance, changes in financial reporting standards, insider trading, as well as changes in the company law, so as to update and refresh them on matters that affect or may enhance their performance as Board or Board committee members.

Board Composition and Balance

Principle 2 : There should be a strong and independent element on the board, which is able to exercise objective judgement on corporate affairs independently, in particular, from management. No individual or small group of individuals should be allowed to dominate the board's decision making.

The NC determines annually basis whether or not a director is independent, bearing in mind the Code's definition of an "independent director" and guidance as to relationships the existence of which would deem a director not to be independent. In addition, in deciding whether or not a director is independent, the NC also takes into consideration whether a director has business relationships with the Company or any of its related companies, and if so, whether such relationships could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent judgment with a view to the best interests of the Company. The NC is of the view that based on the Code's definition of an "independent director" and guidance as to relationships, the four current independent non-executive directors are independent, and no individual or small group of individuals dominates the Board's decision-making process.

The Board presently comprises seven directors, of whom four are independent non-executive directors. The present composition of the Board complies with the Code's guidelines that independent directors make up at least one third of the Board. The nature of the current directors' appointments and membership on the Board committees are as follows:

Name of Directors	Position held on the Board	Board Committee Meetings		
		Audit	**Nominating**	**Remuneration**
Mr Wong Hon Wai	Chairman and Managing Director	-	Member	-
Mr Tsim Pong Kit	Executive Director	-	-	-
Mr Wong Hon Kin	Executive Director	-	-	-
Mr Low Wai Cheong	Lead Independent Director	Member	-	Member
Mr Hung Tak Chow Charles	Independent Director	Member	Chairman	Chairman
Mr Tong Hing Wah	Independent Director	Chairman	Member	Member
Mr Lam Yan Kan Dominic	Independent Director	Member	Member	-

The size and composition of the Board is reviewed annually by the NC which is of the view that the current Board size of seven directors, four of whom are independent non-executive directors, is appropriate and facilitates effective decision-making, taking into account the nature and scope of the Company's operations.

The NC is also satisfied that the Board comprises directors who as a group provide core competencies such as accounting or finance, legal or regulatory knowledge, business or management experience, industry knowledge, strategic planning experience and customer-based experience or knowledge, which are required for the Board to be effective.

The independent directors discuss regularly without the presence of Management matters such as the changes that they like to see in Board processes, corporate governance initiatives, and matters which they wish to discuss during the Board meetings.

Mr Low Wai Cheong and Mr Lam Yan Kan Dominic are the two independent directors who are ordinarily resident in Singapore.

Chairman and Chief Executive Officer

Principle 3 : There should be a clear division of responsibilities at the top of the company - the working of the board and the executive responsibility of the company's business - which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The Group does not have a Chief Executive Officer. Mr Wong Hon Wai is currently the Chairman and Managing Director of the Company. Mr Wong has played an instrumental role in developing the business of the Group and has provided the Group with strong leadership vision. The Board is of the view that it is in the best interests of the Group to adopt a single leadership structure where the Chairman and Managing Director is the same person, so that the Board, and in particular, the independent directors, can have the benefit of a chairman who is knowledgeable about the business of the Group, and is therefore better able to guide discussions on business affairs of the Company, whilst at the same time have the benefit of objective and independent views from the independent directors.

The Board confirms that this arrangement has not concentrated power in the hands of one individual or compromised accountability and independent decision-making for the following reasons:

(a) the independent directors actively participate during Board meetings and challenge the assumptions and proposals of the Management unreservedly, both during and outside of Board meetings on pertinent issues affecting the affairs and business of the Group;

(b) all major decisions made by the Chairman and Managing Director of the Company are reviewed and approved by the Board; and

(c) to enhance the independence of the Board, a Lead Independent Director has been appointed to coordinate the activities of the independent directors and to act as the principal liaison party between the independent directors and the Chairman on sensitive issues. The Lead Independent Director will also be available to shareholders where they have concerns which contact through the normal channels of the Chairman and Managing Director, and the Financial Controller/Assistant Financial Controller/Company Secretary has failed to resolve or for which such contact is inappropriate.

Notwithstanding the above, the Board retains the right to review the current status as facts and circumstances change.

As the Managing Director, Mr Wong is responsible for the overall management, strategic direction and growth of the Group. As the Chairman, Mr Wong sets guidelines on and is responsible for the exercise of control over the quantity and quality, and the timeliness of the flow of information between the Management and the Board, so that the directors receive accurate, timely and clear information for them to make sound decisions. He also schedules Board meetings and oversees the preparation of the meeting agenda to enable the Board to perform its duties effectively and responsibly.

The Chairman and Managing Director also encourages constructive relations between the Board and Management, and between the executive directors and independent directors, as well as effective communication with shareholders. To facilitate effective contribution of directors, and in particular, the independent directors, the Chairman and Managing Director ensures that relevant information on business initiatives, industry developments and press commentaries on matters relating to the Company or the industries in which it operates are circulated to the Board members on a continuous basis so as to enable them to be updated and thereby enhance the effectiveness of the non-executive directors and the Board as a whole.

The Chairman and Managing Director takes a leading role in the Company's drive to achieve and maintain a high standard of corporate governance with the support of the directors, Management and the Company Secretary.

Board Membership

Principle 4 : There should be a formal and transparent process for the appointment of new directors to the board.

The Company has established a NC to, *inter alia*, make recommendations to the Board on all Board appointments. The NC currently comprises the following directors:

Mr Hung Tak Chow Charles	-	Chairman
Mr Tong Hing Wah	-	Member
Mr Lam Yan Kan Dominic	-	Member
Mr Wong Hon Wai	-	Member

The NC comprises Mr Hung Tak Chow Charles, Mr Tong Hing Wah, Mr Lam Yan Kan Dominic and Mr Wong Hon Wai. The Chairman of the NC is Mr Hung Tak Chow Charles. The majority members of the NC, including the Chairman of the NC, are independent directors. The Chairman of the NC is also not associated in any way with any substantial shareholders of the Company.

Role of the NC

The role of the NC is to establish a formal and transparent process for the appointment of new directors and the re-appointment of directors retiring by rotation, as well as to assess the effectiveness of the Board and the overall contribution of each director towards the effectiveness of the Board.

The principal functions of the NC, as set out in its terms of reference, include the following:

(a) review and make recommendations to the Board on all candidates nominated (whether by the Board, shareholders or otherwise) for appointment to the Board, taking into account the candidate’s track record, age, experience, capabilities and other relevant factors;

(b) identify and nominate candidates for the approval of the Board to fill vacancies in the Board as and when they arise;

(c) review all candidates nominated for appointment as the Company’s senior management staff;

(d) put in place plans for succession, in particular, of the Chairman of the Board and the Chief Executive Officer of the Company;

(e) at least once every financial year, review (and thereafter, make recommendations to the Board regarding) the Board structure, size and composition, taking into account the balance between executive and non-executive directors and between independent and non-independent directors, and having regard at all times to the principles of corporate governance and the Code;

(f) procure that at least one-third of the Board shall comprise of independent directors (or such other minimum proportion and criteria as may be specified in the Code from time to time);

(g) make recommendations to the Board on the continuation (or not) of service of any director who has reached the age of seventy (70);

(h) identify and make recommendations to the Board as to the directors who are to retire by rotation and to be put forward for re-election at each Annual General Meeting ("**AGM**") of the Company, having regard to the directors' contribution and performance (such as their attendance, preparedness, participation and candour), including, if applicable, as independent directors and ensure that sufficient information is provided to the shareholders so as to enable them to make an informed decision; and

(i) determine annually whether or not a director is independent, bearing in mind the circumstances set out in the Code and other salient factors.

The NC has also adopted internal guidelines addressing competing time commitments that are faced when directors serve on multiple boards. The NC also determines annually whether a director with multiple board representations is able to and has been adequately carrying out his duties as a director of the Company. The NC has taken into account the respective director's actual conduct and effectiveness on the Board, and the time and attention given by each of them to the affairs of the Company, in making this determination, and is satisfied that all the directors having multiple board representations have been able to and have adequately carried out their duties as director.

Process for appointment of new directors

The NC has recommended, and the Board has approved, a formal process for the selection of new directors as follows:

(a) The NC evaluates the balance of skills, knowledge and experience on the Board and, in the light of such evaluation and in consultation with management, prepares a description of the role and the essential and desirable competencies for a particular appointment;

(b) Directors and Management may suggest suitable potential candidates. If necessary, the NC may enlist external help (for example, from the Singapore Institute of Directors, search consultants, advertisements) to source for potential candidates;

(c) The NC assesses suitability of short-listed candidates and discusses with them, if necessary, to ensure that the candidate(s) are aware of the expectations and the level of commitment required; and

(d) The NC makes recommendations to the Board for approval.

Criteria for appointment of new directors

All new appointments are subject to the recommendation of the NC based on, inter alia, the following objective criteria:

(a) Integrity;

(b) Independent mindedness;

(c) Possess core competencies which meet the current needs of the Company and complement the skills and competencies of the existing directors on the Board;

(d) Able to commit time and effort to carry out duties and responsibilities effectively;

(e) Experience in the relevant field of business of the Company or industries in which it operates; and

(f) Financially literate.

Under the Company's existing Articles of Association, all directors (except for the managing director, if any) are to submit themselves for re-nomination and re-election at regular intervals of at least once every three years. A newly appointed director must also submit himself for re-election at the AGM immediately following his appointment.

The following key information regarding directors is set out in the following pages of this Annual Report:

(a) pages 26 to 27 – Academic and professional qualifications, date of first appointment as director, date of last re-election as director, directorships or chairmanships both present and those held over the preceding three years in other listed companies and other major appointments, whether appointment is executive or non-executive, or considered by the NC to be independent; and

(b) page 30 – Shareholding in the Company and its subsidiaries.

Board Performance

Principle 5 : There should be a formal assessment of the effectiveness of the board as a whole and the contribution by each director to the effectiveness of the board.

The Board has implemented a formal process for assessing the effectiveness of the Board as a whole, as well as the contribution by each director to the effectiveness of the Board.

The Board assessment exercise provided an opportunity to obtain constructive feedback from each director on whether the Board's procedures and processes allowed him to discharge his duties effectively and the changes that should be made to enhance the effectiveness of the Board as a whole.

The individual director’s assessment exercise allowed each director to reflect upon his own performance on the Board so that the overall quality of the board members may be improved upon and enhanced. It also assisted the NC in determining whether to re-nominate directors who are due for retirement at the next AGM, and in determining whether directors with multiple board representations are nevertheless able to and have adequately discharged their duties as directors of the Company.

The NC determines how the Board's performance may be evaluated and proposes objective performance criteria. Such performance criteria are approved by the Board and addresses how the Board has enhanced long-term shareholders’ value.

The performance criteria for the Board evaluation are in respect of the Board size, composition and independence, conduct of meetings, corporate strategy and planning, risk management and internal control, Board performance in relation to discharging its principal functions, Board committee performance in relation to discharging their responsibilities set out in their respective terms of reference, achievement of financial targets which includes return on equity, improvement of performance of the Company's share price vis-à-vis the Singapore Straits Times Index, recruitment policy, process for determining remuneration and compensation of directors and key executives, financial reporting, and communication with shareholders.

The individual director’s performance criteria are categorized into (i) attendance at Board and related activities, (ii) adequacy of preparation for Board meeting, (iii) contribution in strategic/business decision, finance/accounting, risk management, legal/regulatory, human resource management, or any other specialist area of each director, (iv) area of experience, (v) generation of constructive debate, (vi) maintenance of independence, (vii) disclosure of related party transactions, and (viii) overall assessment.

Access to Information

Principle 6 : In order to fulfill their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

To assist the Board in fulfilling its responsibilities, Management provides the Board with complete and adequate information in a timely manner. As a general rule, Board papers are required to be sent to directors before the Board meeting so that the members may better understand the matters prior to the Board meeting and discussion may be focused on questions that the Board has about the Board papers. However, sensitive matters may be tabled at the meeting itself or discussed without any papers being distributed. Key executives who can provide additional insight into the matters at hand would be present at the relevant time during the Board meeting.

Management also provides the Board members with background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts, internal financial statements, together with explanations for any material variance between the projections and actual results in respect of its financial performance.

The Financial Controller/Assistant Financial Controller/Company Secretary administers, attends and prepares minutes of Board proceedings. He assists the Chairman by ensuring that Board procedures (including) but not limited to assisting the Chairman by ensuring the timely and proper exchange of information between the Board and Board committees, and between Management and the non-executive directors, and facilitating orientation and assisting in the professional development of the directors) are followed and regularly reviewed to ensure effective functioning of the Board, and that the Company’s Memorandum and Articles of Association and relevant rules and regulations, including requirements of the Companies Act, Securities & Futures Act, and Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) are compiled with. He also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes with a view to enhancing long-term shareholder’s value.

The appointment and removal of the Company Secretary are subject to the approval of the Board as a whole.

Subject to the approval of the Chairman, the directors, whether as a group or individually, may seek and obtain independent professional advice to assist them in the discharge of their duties, at the expense of the Company.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7 : There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC currently comprises of entirely independent directors as follows:

Mr Hung Tak Chow Charles	-	Chairman
Mr Low Wai Cheong	-	Member
Mr Tong Hing Wah	-	Member

The RC comprises Mr Hung Tak Chow Charles, Mr Low Wai Cheong and Mr Tong Hing Wah. The Chairman of the RC is Mr Hung Tak Chow Charles. All existing members of the RC including the Chairman of the RC, are independent directors.

The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors and senior management. The principal functions of the RC include the following:

(a) recommend to the Board a framework of remuneration for the Board members and key executives of the Company covering all aspects of remuneration, including without limitation, directors' fees, salaries, allowances, bonuses, options, benefits-in-kind and performance-related incentives;

(b) propose, for approval by the Board, appropriate and meaningful measures for assessing an executive director's performance;

(c) consider whether compensation commitments the directors' contracts of service, if any, would entail in the event of early termination;

(d) consider whether directors should be eligible for benefits under long-term incentive schemes;

(e) administer the Company's share option scheme, including without limitation, to:-

   (i) identify those eligible directors and employees of the Company and its subsidiary companies to whom options should be granted;

   (ii) the timing for grant of options;

   (iii) the number of shares over which options are to be granted; and

   (iv) the exercise price at which options are to be granted.

(f) consider and make recommendations to the Board concerning the disclosure of details of the Company's remuneration policy, level and mix of remuneration and procedure for setting remuneration, and the details of the specific remuneration packages of the directors and executives of the Company, in addition (if appropriate) to those required by law or by the Code.

The terms of reference of the RC does not encompass decisions to employ or dismiss employees.

In carrying out the above, the RC may obtain independent external legal and other professional advice as it deems necessary. The expenses of such advice shall be borne by the Company.

The RC's recommendations are made in consultation with the Chairman of the Board and submitted to the entire Board for endorsement. Each member of the RC will refrain from voting on any resolution in respect of the assessment of his remuneration. No director will be involved in determining his own remuneration.

Level and Mix of Remuneration

Principle 8 : The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of the executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

The RC assists the Board by ensuring that remuneration policies and practices are sound in that they are able to attract, retain and motivate without being excessive, and thereby maximize shareholders' value.

In setting remuneration packages, the RC takes into consideration the pay and employment conditions within the industry and in comparable companies. As part of its review, the RC ensures that the performance related elements of remuneration form a significant part of the total remuneration package of executive directors and is designed to align the directors' interests with those of shareholders and link rewards to corporate and individual performance.

In making its deliberations and recommendations, the RC also takes into account a number of factors, a summary of which is set out below:-

(a) the level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the Company successfully;

(b) the pay and employment conditions for the industry that the Company is in and in comparable companies;

(c) the remuneration package shall take into account the Company's relative performance and the performance of individual directors;

(d) the remuneration of non-executive directors should be appropriate to the level of contribution, taking into account factors such as effort and time spent and responsibilities;

(e) to encourage long-term incentive schemes, including share schemes; and

(f) such other factors as may be specified in the Code from time to time.

The RC also reviews all matters concerning the remuneration of independent directors by ensuring that the remuneration commensurates with the level of contribution, taking into account factors such as effort and time, and responsibilities of the directors. The Company will submit the quantum of directors' fees of each year to the shareholders for approval at each AGM.

Only the executive directors have entered into service contracts with the Company, which are for a fixed appointment period. The RC reviews what compensation commitments the executive directors' service contracts would entail in the event of early termination, and aims to be fair and avoid rewarding inadequate performance.

Disclosure on Remuneration

Principle 9 : Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

Policy in respect of independent directors' remuneration

The independent directors do not enter into service contracts with the Company. They are paid directors' fees, the amount of which is dependent on their level of responsibilities. Each independent director is paid a fixed fee each year. The amount of directors' fees payable to independent directors is subject to shareholders' approval at the Company's AGMs.

Remuneration policy in respect of executive directors and other key executives

The Company advocates a performance-based remuneration system that is highly flexible and responsive to the market and the performance of the Company and the individual employee. This allows the Company to better align executive compensation with shareholder value creation. The total remuneration mix comprises annual fixed cash and annual performance incentive. The annual fixed cash component comprises the annual basic salary plus any other fixed allowances. The annual performance incentive is tied to the performance of the Company and the individual employee. The executive directors do not receive any directors' fee.

The level and mix of each of the directors' remuneration, and that of each of the key executives (who are not also directors), in bands of S$250,000 for the financial year ended 31 December 2008, are set out below:

	Salary	**Director's Fee**	**Total**
	%	%	%
Remuneration Band & Name of Directors			
S$250,000 and below			
Mr Wong Hon Wai	100	-	100
Mr Tsim Pong Kit	100	-	100
Mr Wong Hon Kin	100	-	100
Ms Wong Ka Wai Sandy	100	-	100
Mr Low Wai Cheong	-	100	100
Mr Hung Tak Chow Charles	-	100	100
Mr Tong Hing Wah	-	100	100

	Salary	**Pension Fund Contribution**	**Total**
	%	%	%
Remuneration Band & Name of Top 5 Key Executives			
S$250,000 and Below			
Mr Wong Kin Tak	100	-	100
Mr Ng Sai Cheong	98.5	1.5	100
Mr Lam Tak Wo	97.8	2.2	100
Mr Liu Yun Bo	96.0	4.0	100
Ms Pei Jie	95.5	4.5	100

Mr Wong Hon Kin, Executive Director, is the brother of Mr Wong Hon Wai, Chairman and Managing Director of the Company. Save as disclosed, there were no employees of the Company or its subsidiaries who were immediate family members of any director or the CEO of the Company and whose remuneration exceeded S$150,000 for the financial year ended 31 December 2008. "Immediate family member" means the spouse, child, adopted child, step-child, brother, sister or parent.

The Company has a share option scheme known as Beauty China Employee Share Option Scheme (the "**ESOS**") which was approved by shareholders of the Company on 26 September 2003. The ESOS complies with the relevant rules as set out in Chapter 8 of the Listing Manual of the SGX-ST. The ESOS will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. The ESOS is administered by the RC. During the year ended 31 December 2008, no share options were granted to directors and employees of the Company and the Company's subsidiaries.

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10 : The board should present a balanced and understandable assessment of the Company's performance, position and prospects.

The Board is responsible for providing a balanced and understandable assessment of the Company's performance, position and prospects, including interim and other price sensitive public reports, and reports to regulators (if required). Management currently provides all members of the Board with appropriately detailed management accounts which present a balanced and understandable assessment of the Company's performance, position and prospects on a quarterly basis.

The Board has embraced openness and transparency in the conduct of the Company's affairs, whilst preserving the commercial interests of the Company. Financial reports and other price sensitive information are disseminated to shareholders through announcements via SGXNet to the SGX-ST, press releases, the Company's website, and public webcast and media and analyst briefings.

Audit Committee

Principle 11 : The board should establish an AC with written terms of reference which clearly set out its authority and duties.

The AC currently comprises of the following independent directors:

Mr Tong Hing Wah	-	Chairman
Mr Low Wai Cheong	-	Member
Mr Hung Tak Chow Charles	-	Member
Mr Lam Yan Kan Dominic	-	Member

The AC comprises Mr Tong Hing Wah, Mr Low Wai Cheong, Mr Hung Tak Chow Charles and Mr Lam Yan Kan Dominic. The Chairman of the AC is Mr Tong Hing Wah. All members of the AC including the Chairman of the AC, are independent directors.

The primary functions of the AC, as set out in its terms of reference, are as follows:

(a) consider the appointment of the external auditors, the audit fee and any questions of resignation or dismissal;

(b) discuss with the external auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

(c) review the financial statements before submission to the Board, focusing particularly on:

 (i) any changes in accounting policies and practices;

 (ii) major judgmental areas;

 (iii) significant adjustments resulting from the audit;

 (iv) the going concern assumption;

 (v) compliance with accounting standards; and

 (vi) compliance with stock exchange and legal requirements.

(d) discuss problems and reservations arising from the audit, and any matters the auditors may wish to discuss (in the absence of Management where necessary);

(e) review the external auditor's management letter and Management's response;

(f) monitor the Company's policy on implementing an effective and appropriate internal control system;

(g) review all interest person transactions, if any, on at least a half-yearly basis to ensure that they are carried out on normal commercial terms, are not prejudicial to the interests of shareholders and the then prevailing rules and regulations of SGX-ST (in particular Chapter 9 of the Listing Manual of SGX-ST) are complied with;

(h) commission and review the major findings of internal investigations into matters where there is any suspected fraud or irregularity or failure of internal controls or infringement of any relevant law, rule or regulation which has or is likely to have a material impact on the Company's operating results and/or financial position;

(i) consider other topics, as defined by the Board; and

(j) undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

The AC meets regularly and also holds informal meetings and discussions with Management from time to time. The AC has full discretion to invite any director or executive officer to attend its meetings.

The AC has been given full access to and was provided with the cooperation from Management. In addition, the AC has independent access to the external auditors. Once a year, the AC meets with the external auditors without the presence of the management to review matters that might be raised privately. The AC has reasonable resources to enable it to discharge its functions properly.

There was no non-audit services provided by the external auditors to the Group during the year ended 31 December 2008 and the AC is pleased to recommend their re-appointment at the forthcoming AGM.

During the year ended 31 December 2008, the AC met 6 times to carry out their duties and responsibilities as AC members.

The AC established a whistle blowing policy on 28 March 2007 to enable persons employed by the Group a channel to report any suspicions of non-compliance with regulations, policies and fraud, etc, to the appropriate authority for resolution, without any prejudicial implications for these employees. The

AC is vested with the power and authority to receive, investigate and enforce appropriate action when any such non-compliance matter is brought to its attention.

Internal Controls

Principle 12 : The board should ensure that management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The Company's internal and external auditors conduct an annual review of the adequacy and effectiveness of the Company's internal controls, including financial, operational and compliance controls, and risk management policies and systems established by Management (collectively "**internal control**"). Any material non-compliance or failures in internal control, and recommendations for improvements, are reported to the AC. The AC also reviews the effectiveness of the actions taken by Management on the recommendations made by the internal and external auditors in this respect.

During the year, the AC reviewed the effectiveness of the Company's internal control and risk management procedures and was satisfied that the Company's risk management processes and internal controls are adequate to meet the needs of the Company in its current business environment.

Internal Audit

Principle 13 : The company should establish an internal audit function that is independent of the activities it audits.

The Company's internal audit functions are out-sourced to Winful C.P.A. Limited (the "**Internal Auditors**"), which has unrestricted direct access to the AC.

The Internal Auditors' primary line of reporting is to the Chairman of the AC, although the Internal Auditor also reports administratively to the Managing Director.

The objective of the internal audit function is to provide independent and reasonable assurance to the AC and Management that the Group's risk management, controls and governance processes are adequate and effective.

The AC will review with the Internal Auditors their internal audit plans, their evaluation of the system of internal controls, their audit findings and management's responses to those findings; the effectiveness of material internal controls, including financial, operational and compliance controls and overall risk management of the Company and the Group; and the adequacy of the internal audit function.

(D) COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders

Principle 14 : Companies should engage in regular, effective and fair communication with shareholders.

Principle 15 : Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Board is mindful of its obligations to provide timely and fair disclosure of material information to the SGX-ST in accordance with the Corporate Disclosure Policy as set out in the Listing Manual of the SGX-ST. The Board's policy is that all shareholders should be equally and timely informed of all major developments that impact the Group.

Material information is disclosed and communicated to shareholders in a comprehensive, accurate and timely manner through:

(a) announcements of full year and quarterly financial results which are published via the SGXNet;

(b) annual reports or circulars of the Company that are prepared and sent to all shareholders;

(c) notices of AGMs and extraordinary general meetings published in the newspapers; and

(d) press releases on major developments of the Group.

Shareholders are invited to attend shareholders' meetings to put forth any questions they may have on the motions to be debated and decided upon. If any shareholder is unable to attend, he is allowed to appoint up to two proxies to vote on his behalf at the meeting through proxy forms sent in advance. At shareholders' meetings, each distinct issue is proposed as a separate resolution. External auditors are also present at such meetings to assist the directors to address shareholders' queries, if necessary.

(E) DEALINGS IN SECURITIES (Listing Manual Rule 1207(18))

In relation to dealings in the Company's securities by officers of the Company, the Company has adopted its own guidelines based substantially on the provisions of Rule 1207 of the Listing Manual of the SGX-ST (formerly found in the Best Practices Guide on Dealings in Securities issued by the SGX-ST). These internal guidelines apply to dealings in securities by certain employees (including directors and other officers) of the Group. The Company issues circulars to its directors and officers reminding them not to deal in the listed securities of the Company, for a period of two weeks before the release of quarterly results, and one month before the full-year results, and if they are in possession of unpublished price-sensitive information.

(F) RISK MANAGEMENT (Listing Manual Rule 1207(4)(b)(iv))

The Company does not have a Risk Management Committee. However, the management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant control policies and procedures and highlights all significant matters to the Board and the AC.

(G) MATERIAL CONTRACTS (Listing Manual Rule 1207(8))

Save for the service agreements between Mr Wong Hon Wai and Mr Tsim Pong Kit and the Company, there are no material contracts of the Company or its subsidiaries involving the interest of the Managing Director, any director or controlling shareholders subsisting at the end of the year ended 31 December 2008.

(H) INTERESTED PERSON TRANSACTIONS (Listing Manual Rule 907)

The Board has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC for review, and that all such transactions are conducted at arm's length basis.

Save as disclosed under the section "Notes to the Financial Statements" on page 79 of this Annual Report, there are no other interested person transactions (with value more than S$100,000) conducted during the financial year ended 31 December 2008.

PARTICULARS OF DIRECTORS PURSUANT TO THE CODE

Name	Academic/ Professional Qualifications/ Affiliations	Board Appointment Executive/ Non-Executive/ Independent	Date Last Appointed	Date Last Re-elected	Directorship/ Chairmanships in other Listed Companies (Present & Held Over the Preceding Three Years) & Major Appointments
Mr Wong Hon Wai	Graduate of Senior Middle School in Hong Kong	Chairman and Managing Director	8 July 2002	N. A.	Nil
Mr Tsim Pong Kit	Bachelor of Law Degree, Bachelor of Arts Degree, Diploma in Education	Executive Director	24 July 2003	30 April 2008	Nil
Mr Wong Hon Kin	Graduate of Senior Middle School in Hong Kong	Executive Director	23 July 2008	-	Nil
Mr Low Wai Cheong	Bachelor of Laws, Masters of Law Degree, Practising Advocate and Solicitor of the Supreme Court of Singapore, Non-Practising Solicitor of the Supreme Court of England and Wales and of the Supreme Court of New South Wales, Australia	Lead Independent Director	25 September 2003	30 April 2007	Directorship in Singapore-listed Asia Environment Holdings Ltd. (2009)
Mr Hung Tak Chow Charles	Masters of Engineering Degree, Bachelor of Science Degree	Independent Director	25 September 2003	30 April 2007	Directorship in Hong Kong-listed EVI Education Asia Ltd. (2001-2006)

Name	Academic/ Professional Qualifications/ Affiliations	Board Appointment Executive/ Non-Executive/ Independent	Date Last Appointed	Date Last Re-elected	Directorship/ Chairmanships in other Listed Companies (Present & Held Over the Preceding Three Years) & Major Appointments
Mr Tong Hing Wah	Bachelor of Arts in Accountancy, Associate Member of Hong Kong Institute of Certified Public Accountants, Fellow of the Association of Chartered Certified Accountants	Independent Director	25 September 2003	25 April 2006	Directorship in Hong Kong-listed China Packaging Group Company Ltd. (2003-Present)
Mr Lam Yan Kan Dominic	Diploma in Business Studies, Diploma in Business Administration, Member of the British Institute of Management and the Singapore Institute of Management	Independent Director	1 January 2008	30 April 2008	Nil

The Shareholdings of individual directors of the Company are set out on page 30 of this Annual Report. None of the directors hold shares of the subsidiaries of the Company.

APPENDIX

Code of Corporate Governance
Specific principles and guidelines for disclosure

Relevant Guidelines or Principles	Page Reference in this Annual Report
Guideline 1.3 Delegation of authority, by the board to any board committee, to make decisions on certain board matters	10-11
Guideline 1.4 The number of board and board committee meetings held in the year, as well as the attendance of every board member at these meetings	11
Guideline1.5 The type of material transactions that require board approval under internal guidelines	11
Guideline 2.2 Where the company considers a director to be independent in spite of the existence of a relationship as stated in the Code that would otherwise deem him as non-independent, the nature of the director's relationship and the reasons considering him as independent should be disclosed	12
Guideline 3.1 Relationship between the Chairman and CEO where they are related to each other	13
Guideline 4.1 Composition of nominating committee	14
Guideline 4.5 Process for the selection and appointment of new directors to the board	15
Guideline 4.6 Key information regarding directors, which directors are executive, non-executive or considered by the nominating committee to be independent	25-26
Guideline 5.1 Process for assessing the effectiveness of the board as a whole and the contribution of each individual director to the effectiveness of the board	16-17
Principle 9 Clear disclosure of its remuneration policy, level and mix of remuneration, procedure for setting remuneration and link between remuneration paid to directors and key executives, and performance	19-20
Guideline 9.1 Composition of remuneration committee	18

REPORT OF THE DIRECTORS

The directors submit this annual report to the members together with the audited consolidated financial statements of Beauty China Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2008.

Directors

The directors in office at the date of this report are:

Executive directors:
Mr Wong Hon Wai (Chairman and Managing Director)
Mr Tsim Pong Kit
Mr Wong Hon Kin (appointed on 23 July 2008)
Ms Wong Ka Wai Sandy (resigned on 28 March 2008)

Independent directors:
Mr Low Wai Cheong (Lead Independent Director)
Mr Hung Tak Chow Charles
Mr Tong Hing Wah
Mr Lam Yan Kan Dominic (appointed on 1 January 2008)

In accordance with articles 85(6) and 86(1) of the articles of association of the Company, Mr Wong Hon Kin and Mr Tong Hing Wah will retire and offer themselves for re-election at the forthcoming Annual General Meeting.

Arrangements to Acquire Shares or Debentures

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement the object of which was to enable the directors to acquire benefits through the acquisition of shares in or debentures of the Company or of any other corporate body other than as disclosed in this report.

REPORT OF THE DIRECTORS (CONTINUED)

Directors' Interests in Shares or Debentures

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Companies Act, Cap. 50, none of the directors who held office at the end of the financial year was interested in shares of the Company and its related corporations except as follows:

	Ordinary shares registered in name of director		**Ordinary shares in which director is deemed to have an interest**	
	As at 1 January 2008	**As at 31 December 2008**	**As at 1 January 2008**	**As at 31 December 2008**
The Company - Beauty China Holdings Limited				
	Number of shares of HK$0.10 each			
Mr Wong Hon Wai	-	-	137,456,007	137,456,007

	Options to subscribe for ordinary shares of HK$0.10 each held by directors under options set out in paragraph on "Share Option Scheme"			
	As at 1 January 2008	**As at 31 December 2008**	**As at 1 January 2008**	**As at 31 December 2008**
Options to subscribe for ordinary shares of HK$0.10 each at S$0.70 between 7 October 2006 to 6 October 2015				
Mr Tsim Pong Kit	3,000,000	3,000,000	-	-
Mr Hung Tak Chow Charles	300,000	300,000	-	-
Mr Low Wai Cheong	300,000	300,000	-	-
Mr Tong Hing Wah	300,000	300,000	-	-

There were no changes in any of the above-mentioned interests between the end of the financial year and 21 January 2009.

Directors' Benefits

Since the end of the previous financial year, no director has received or has become entitled to receive a benefit under a contract which is required to be disclosed under Section 201(8) of the Companies Act, Cap. 50, except as disclosed in the notes to the financial statements and in this report.

REPORT OF THE DIRECTORS (CONTINUED)

Share Option Scheme

On 26 September 2003, the shareholders of the Company approved a share option scheme known as the Beauty China Employee Share Option Scheme (the "ESOS") for the granting of non-transferable options that are settled by physical delivery of ordinary shares of the Company, to reward and retain executive directors, non-executive directors and employees whose services are vital to the well-being and success of the Group. Options are granted for a term of 10 years to purchase the ordinary shares of the Company at an exercise price determined by a Remuneration Committee, established by the Company pursuant to the Code of Corporate Governance, at its absolute discretion at (a) a price equal to the average of the last dealt prices of the shares of the Company on the Singapore Exchange for the five consecutive market days immediately prior to the relevant date of grant of the options (the "Average Price"); or (b) a discount to the Average Price provided that the maximum discount which may be given in respect of any options shall not exceed 20 per cent of the Average Price.

Size of the ESOS

The total number of new shares over which options may be granted pursuant to the ESOS shall not exceed 15% of the issued share capital of the Company on the day immediately preceding the offer date of the options ("Offer Date").

Acceptance of option

The grant of an option shall be accepted within 30 days from the Offer Date and accompanied by payment to the Company of a nominal consideration of S$1.

The Remuneration Committee administering the scheme consists of the following directors:

Mr Hung Tak Chow Charles (Chairman)
Mr Low Wai Cheong
Mr Tong Hing Wah

During the year, no share option was granted under the ESOS.

Details of all the options to subscribe for ordinary shares of HK$0.10 each of the Company pursuant to the ESOS outstanding as at 31 December 2008 are as follows:

Number of options	Exercise price (S$)	Exercisable period
10,400,000	0.70	7 October 2006 to 6 October 2015

REPORT OF THE DIRECTORS (CONTINUED)

Share Option Scheme (continued)

Details of the options to subscribe for ordinary shares of HK$0.10 each of the Company granted pursuant to the ESOS are as follows:

Participant	Aggregate options granted since commencement of the ESOS and outstanding as at end of financial year
Directors:	
Mr Tsim Pong Kit	3,000,000
Mr Hung Tak Chow Charles	300,000
Mr Low Wai Cheong	300,000
Mr Tong Hing Wah	300,000
	3,900,000
Employees	6,500,000
Total	10,400,000

These options are exercisable from 7 October 2006 to 6 October 2015 at the exercise price of S$0.70 if the vesting conditions stipulated in the ESOS are met.

Since the commencement of the ESOS till the end of the financial year:

- No options have been granted to the controlling shareholders of the Company and their associates;
- No participants, other than Mr Tsim Pong Kit, have received 5% or more of the total options available under the ESOS;
- No options that entitle the holder to participate, by virtue of the options, in any share issue of any other corporation have been granted; and
- No options have been granted at a discount.

Save as disclosed above, there were no unissued shares of the Company or any subsidiaries under options at the end of the financial year to which this report relates.

Securities Transactions

The Company has issued a policy on dealing in the shares of the Company to employees of the Company pursuant to the Code of Corporate Governance issued by the Singapore Exchange. The policy sets out the implications of insider dealing in the shares of the Company, and includes guidance to employees on dealing in the shares of the Company, which is modelled on the Code of Corporate Governance with some modifications.

REPORT OF THE DIRECTORS (CONTINUED)

Audit Committee

The Audit Committee comprises the following members:

Mr Tong Hing Wah (Chairman)
Mr Hung Tak Chow Charles
Mr Low Wai Cheong
Mr Lam Yan Kan Dominic

The Audit Committee performs the functions set out in Section 201B(5) of the Companies Act, Cap. 50, the Listing Manual and the Best Practices Guide of the Singapore Exchange, and the Code of Corporate Governance. In performing its functions, the Audit Committee reviewed the following:

(i) overall scope of the external audits and the assistance given by the Company's officers to the auditors. It met with the Company's external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;

(ii) the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2008 as well as the auditors' report thereon; and

(iii) interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditors and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external joint auditors, HLB Hodgson Impey Cheng and Foo Kon Tan Grant Thornton, and has recommended to the Board of Directors that the joint auditors, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

Joint Auditors

The auditors, HLB Hodgson Impey Cheng and Foo Kon Tan Grant Thornton, Certified Public Accountants, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai Chairman	Tsim Pong Kit Director

Dated : 12 June 2009

STATEMENT BY DIRECTORS

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In the opinion of the directors, the accompanying consolidated balance sheet, consolidated income statement, statements of changes in equity and the consolidated cash flow statement, together with the notes thereon, are drawn up in accordance with and comply with International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the results of the business of the Group, changes in equity and cash flows of the Group for the financial year ended on that date and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debt as and when they fall due, subject to the outcome of negotiations with the Group's syndicated lenders and bankers to reschedule the Group's borrowings, the outcome of the negotiations between the Company and the potential investors and the outcome of obtaining potential financial support from the shareholders of the Company.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai Chairman	Tsim Pong Kit Director

Dated : 12 June 2009

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Grant Thornton
均富

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Certified Public Accountants
47 Hill Street, #05-01
Chinese Chamber of Commerce
& Industry Building
Singapore 179365

JOINT INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
BEAUTY CHINA HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We were engaged to audit the accompanying consolidated financial statements of Beauty China Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 90 which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the provision of the International Financial Reporting Standards. This responsibility includes:

(a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balances sheets and to maintain accountability of assets;

(b) selecting and applying appropriate accounting policies; and

(c) making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to complete an audit in accordance with International Standards on Auditing.

BASIS FOR DISCLAIMER OF OPINION

Scope limitation on the recoverability of trade receivables

The Group's net trade receivables was approximately HK$111,481,000 as at 31 December 2008. During the first quarter of year 2009, approximately HK$16,285,000 was settled. The remaining outstanding balance amounted to HK$95,196,000 and was due from several customers ("Customers"). During the first quarter of year 2009, approximately HK$10,156,000 of the remaining outstanding balance was settled. Repayment agreements were entered into between the Group and the Customers whereby each of the customers agreed to settle the remaining outstanding balance according to a repayment plan. We have not been able to obtain sufficient evidence we consider necessary to assess whether the remaining outstanding balance of approximately HK$85,040,000 could be recovered in full, or to determine the amount of impairment, if any, required to be reflected in the consolidated financial statements.

Any adjustment that might have been found to be necessary in respect of the foregoing matters would have a consequential impact on the net assets of the Group as at 31 December 2008 and the loss attributable to the members for the year then ended, and the related disclosures in the consolidated financial statements.

Significant uncertainties relating to the going concern basis of the Group

We have considered the adequacy of the disclosures made in Note 2 to the consolidated financial statements which explains the circumstances giving rise to the significant uncertainties relating to the net loss of the Group and the statutory demands for the repayment of the Group's borrowings and termination of the Group's banking facilities received from its syndicated lenders and bankers. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the outcome of the negotiations with the Group's syndicated lenders and bankers to reschedule the Group's borrowings, the outcome of the non-binding term sheet entered by the Company and potential investors and the outcome of the potential financial support from the shareholders of the Company through a non-binding conditional offer. Details of the negotiations with the Group's syndicated lenders and bankers to reschedule the Group's borrowings, the non-binding term sheet entered by the Company and potential investors and the non-binding conditional offer received from the shareholders are set out in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that would result if the Group failed to reschedule the Group's borrowings, failed to obtain funds from the potential investors through the non-binding term sheet entered by the Company and the potential investors and failed to obtain the financial support from the shareholders of the Company through the non-binding conditional offer. In the absence of sufficient documentary evidence and in view of the uncertainty in the outcome of the various financing negotiations, we were unable to ascertain as to whether the assumptions made by the directors of the Company in preparing the consolidated financial statements on a going concern basis, as set out in Note 2 to the consolidated financial statements, are true and fair and reasonable. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the going concern basis, which may have a consequential significant effect on the results for the year and its liquidity position as at 31 December 2008. These significant uncertainties relating to whether the going concern basis is appropriate are so extreme that we have disclaimed our opinion.

DISCLAIMER OF OPINION

Because of the significance of the matters discussed in the preceding paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the financial statements.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong, 12 June 2009

Foo Kon Tan Grant Thornton
Public Accountants and Certified
Public Accountants
Singapore, 12 June 2009

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008	Notes	**2008**	2007
		HK$'000	HK$'000 (Restated)
Revenue	8	**768,477**	632,576
Cost of sales		**(275,372)**	(237,378)
Gross profit		**493,105**	395,198
Other income		**3,220**	9,421
Distribution costs		**(272,876)**	(205,376)
Administrative expenses		**(24,072)**	(22,287)
Impairment loss recognised in respect of:			
- property, plant and equipment	13	**(165,470)**	-
- land use rights	14	**(62,182)**	-
- **goodwill**	15	**(20,414)**	-
- trade receivables	17	**(217,257)**	(5,169)
Inventories written down		**(46,658)**	(141)
Other expenses		**(8,365)**	(6,263)
Finance costs		**(7,188)**	(3,520)
(Loss)/profit before taxation	9	**(328,157)**	161,863
Taxation	10	**-**	-
(Loss)/profit after taxation attributable to equity holders of the Company		**(328,157)**	161,863
		HK cents	HK cents
(Loss)/earnings per share			
Basic	12	**(92.7)**	47.3
Diluted	12	**(92.7)**	46.7

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2008	Notes	**2008**	2007
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	13	**107,510**	174,333
Land use rights	14	**159,046**	211,743
Goodwill	15	**-**	20,414
		266,556	406,490
Current assets			
Inventories	16	**53,822**	39,520
Trade receivables	17	**111,481**	212,407
Prepayments, deposits and other receivables	18	**93,988**	50,559
Pledged time deposits	19	**6,007**	2,655
Cash and cash equivalents	19	**64,582**	191,229
		329,880	496,370
Total assets		**596,436**	902,860
Equity			
Share capital	20	**35,639**	34,236
Reserves		**330,012**	554,697
		365,651	588,933
Current liabilities			
Trade payables	21	**22,025**	59,861
Accruals and other payables	22	**7,615**	20,370
Acquisition cost payable	23	**-**	101,963
Bank borrowings, secured – due within one year	24	**154,927**	85,515
Provision for taxation		**46,218**	46,218
		230,785	313,927
Total equity and liabilities		**596,436**	902,860
Net current assets		**99,095**	182,443
Total assets less current liabilities		**365,651**	588,933

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Employee share option reserve HK$'000 (note i)	Exchange fluctuation reserve HK$'000 (note ii)	Statutory reserve HK$'000 (note iii)	Retained profits HK$'000	Total HK$'000
At 1 January 2007		34,236	60,395	6,528	256	50	329,400	430,865
Translation difference relating to financial statements of foreign subsidiaries		-	-	-	6,476	-	-	6,476
Net gains recognised directly in equity		-	-	-	6,476	-	-	6,476
Profit for the year		-	-	-	-	-	161,863	161,863
Total recognised income for the year		-	-	-	6,476	-	161,863	168,339
Dividend paid	11	-	-	-	-	-	(10,271)	(10,271)
At 31 December 2007 and 1 January 2008		34,236	*60,395	*6,528	*6,732	*50	*480,992	588,933
Translation difference relating to financial statements of foreign subsidiaries		-	-	-	20,731	-	-	20,731
Net gains recognised directly in equity		-	-	-	20,731	-	-	20,731
Net loss for the year		-	-	-	-	-	(328,157)	(328,157)
Total recognised income for the year		-	-	-	20,731	-	(328,157)	(307,426)
Dividend paid	11	-	-	-	-	-	(17,819)	(17,819)
Issued of shares upon acquisition of subsidiaries		1,403	100,560	-	-	-	-	101,963
At 31 December 2008		**35,639**	***160,955**	***6,528**	***27,463**	***50**	***135,016**	**365,651**

Notes:

i. Employee share option reserve represents the equity-settled options granted to employees. The reserve is made up of the cumulative value of service received from employees recorded on grant of equity-settled share options (Note 32).

ii. Exchange fluctuation reserve arises from the translation of foreign subsidiaries' assets and liabilities.

ii. Statutory reserve represents the profits of Kist Macao Commercial Offshore Limited (formerly known as Colour Zone Comercial Offshore de Macau Limitada), a wholly owned subsidiary, set aside pursuant to the provisions of the Macao Commercial Code, which requires an entity to set aside a minimum 10% of the entity's net profit until the balance of reserve reaches a level equivalent to 50% of the entity's registered capital. The reserve is not available for distribution to the shareholders of the entity.

* These reserve accounts comprise the reserves of HK$330,012,000 (2007: HK$554,697,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008	Notes	2008	2007
		HK$'000	HK$'000 (restated)
Cash flows from operating activities			
(Loss)/profit before taxation		(328,157)	161,863
Adjustments for:			
Depreciation of property, plant and equipment		48,757	28,545
Amortisation of land use rights		4,941	981
Impairment loss recognised in respect of trade receivables	17	217,257	5,169
Inventories written down		46,658	141
Impairment loss recognised in respect of land use rights	14	62,182	-
Impairment loss recognised in respect of goodwill	15	20,414	-
Impairment loss recognised in respect of property, plant and equipment	13	165,470	-
Loss on disposal of property, plant and equipment		4,512	3,224
Finance costs		7,188	3,520
Interest income		(3,067)	(9,211)
Operating income before working capital changes		246,155	194,232
Working capital adjustments:			
Increase in inventories		(60,960)	(14,122)
Increase in trade receivables		(116,331)	(88,165)
Increase in prepayments, deposits and other receivables		(43,006)	(12,127)
(Decrease)/increase in trade payables		(37,836)	29,654
(Decrease)/increase in accruals and other payables		(12,931)	968
Cash (used in)/generated from operating activities		(24,909)	110,440
Interest paid		(6,889)	(3,324)
Net cash (outflow)/inflow from operating activities		(31,798)	107,116
Cash flows from investing activities			
Acquisitions of property, plant and equipment	13	(146,225)	(64,036)
Acquisition of subsidiaries, net cash acquired	25	-	(220,230)
Proceeds from disposals of property, plant and equipment		319	-
Interest received		3,067	9,211
Net cash used in investing activities		(142,839)	(275,055)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the year ended 31 December 2008	Notes	**2008**	2007
		HK$'000	HK$'000 (restated)
Cash flows from financing activities			
Proceeds from bank borrowings		**148,750**	80,000
Repayment of bank borrowings		**(80,000)**	-
Increase in pledged time deposits		**(3,352)**	(97)
Dividends paid		**(17,819)**	(10,271)
Net cash generated from financing activities		**47,579**	69,632
Net decrease in cash and cash equivalents		**(127,058)**	(98,307)
Cash and cash equivalents at the beginning of year		**191,229**	277,966
Effect of foreign exchange		**411**	11,570
Cash and cash equivalents at the end of year	19	**64,582**	191,229

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

1. CORPORATE INFORMATION

The consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group") as at and for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by Directors.

The Company was incorporated in the Cayman Islands on 20 June 2002 as an exempt company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, KY1-1111, Grand Cayman, the Cayman Islands. The principal place of business of the Company is located at Unit 1207 Telecom Tower, Wharf T&T Square, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 27.

2. BASIS OF PREPARATION

In preparing the financial statements, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group in light of the following:

(a) the Group incurred a loss attributable to the equity holders of the Company of approximately HK$328,157,000 for the year ended 31 December 2008; and

(b) 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"), amounting to approximately HK$133,728,000, 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$27,000,000 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 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 meeting with the agent for the Loan, an independent director of the Company and the Company's management which was held on 10 March 2009, the Company informed the Lenders of the prospect of the Company obtaining a fund injection from potential investors, details as set out below. 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 negotiation.

2. BASIS OF PREPARATION (CONTINUED)

(c) On 7 April 2009, the Group received notices from two creditor banks (the "Banks") for termination of banking facilities and demand of repayment of the entire principal and interest outstanding, amounting to approximately HK$12,989,000 by 14 April 2009, and RMB5,001,000 by 10 April 2009. The Company has informed the Banks of the prospect of the Company obtaining a fund injection from potential investors, details as set out below. The Company has requested for a standstill until 27 April 2009 whereby no further actions are expected to be taken by the Banks against the Group 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. The negotiations with the potential investors are still on-going.

(d) Included in the recoverability of trade receivables as stated below in Note 17.

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 the 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 and the Banks 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 a most favored investor status for a period of six 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.

On 20 April 2009, the Company received a non-binding conditional offer from Dunross Asia Pte Ltd, on behalf of Dunross Group, Zesiger Capital Group LLC, Blue Pool Capital, Krohne Capital, Sean Wright and certain other investors, each of which are shareholders of the Company (the "Shareholders"). Pursuant to the terms of the non-binding conditional offer, the Shareholders proposed that the Company undertakes a right issue of ordinary shares in the capital of the Company (the "Rights Shares") to the existing shareholders to raise gross proceeds of approximately S$32,070,000 (approximately HK$172,386,000)(the "Rights Issue") and the ratio for the Rights Issue be 2 Rights Shares for every 1 existing share in the capital of the Company and the issue price (the " Rights Issue Price") be S$0.045 per Rights Share. The Shareholders confirmed that they are willing and able to sub-underwrite the Rights Issue in full, in accordance with all applicable laws and regulations.

2. BASIS OF PREPARATION (CONTINUED)

On 15 May 2009, the Company appointed BNP Paribas Capital (Asia Pacific) Limited as a financial adviser to assist the Company to review all strategic options including but not limited to co-ordinating with Potential Investors who are currently in discussions with the Company, introducing new strategic investors and undertaking rights issue with the aim to provide an optimal solution to address its going concern issue currently confronting the Company.

In the opinion of the directors, in light of non-binding term sheet entered by the Company and the Potential Investors and the potential financial support from the Company's shareholders through the non-binding conditional offer as stated above, the Group would have sufficient financial resources to satisfy its working capital needs for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the outcome of the negotiations with the Group's syndicated lenders and bankers to reschedule the Group's borrowings, the outcome of the non-binding term sheet entered by the Company and potential investors and the outcome of the potential financial support from the Shareholders of the Company through a non-binding conditional offer. The financial statements do not include any adjustments that would result if the Group failed to reschedule the Group's borrowings, failed to obtain funds from the Potential Investors through the non-binding term sheet entered by the Company and the Potential Investors and failed to obtain the financial support from the shareholders of the Company through the non-binding conditional offer. If the Group fails to reschedule the Group's borrowings, fails to obtain funds from Potential Investors and fails to obtain financial support from the Shareholders, adjustment would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

3. NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

In the current year, the Group had applied the following amendments and interpretations ("new IFRs") issued by the International Accounting Standards Board which are or have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC – Int 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC – Int 12	Service Concession Arrangements
IFRIC – Int 14	IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

4. ISSUED BUT NOT YET EFFECTIVE STANDARDS, AMENDMENTS AND INTERPRETATIONS

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs [1]
IAS 1 (Revised)	Presentation of Financial Statements [2]
IAS 23 (Revised)	Borrowing Costs [2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements [3]
IAS 32 and IAS 1 (Amendment)	Puttable Instruments and Obligations Arising on Liquidation [2]
IAS 39 (Amendment)	Eligible Hedged Items [3]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations [2]
IFRS 3 (Revised)	Business Combinations [3]
IFRS 7 (Amendment)	Financial Instrument: Disclosure[2]
IFRS 8	Operating Segments [2]
IFRIC – Int 9 and IAS 39	Embedded Derivatives[2]
IFRIC – Int 13	Customer Loyalty Programmes [4]
IFRIC – Int 15	Agreements for the Construction of Real Estate [2]
IFRIC – Int 16	Hedges of a Net Investment in a Foreign Operation [5]
IFRIC – Int 17	Distributions of Non-Cash Assets to Owners [3]
IFRIC – Int 18	Transfers of Assets from Customers [3]

4. ISSUED BUT NOT YET EFFECTIVE STANDARDS, AMENDMENTS AND INTERPRETATIONS (CONTINUED)

[1] Effective for annual periods beginning on or after 1 January 2009, except the amendments to IFRS 5 which are effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual reporting periods beginning on or after 1 January 2009
[3] Effective for annual reporting periods beginning on or after 1 July 2009
[4] Effective for annual reporting periods beginning on or after 1 July 2008
[5] Effective for annual reporting periods beginning on or after 1 October 2008

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary. IAS 23 (Revised) may result in inclusion of borrowing costs in the cost of qualifying assets when the borrowing costs are directly attributable to such assets. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements of the Group made up to 31 December each year. Information on the subsidiaries is given in Note 27.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

Subsidiaries (continued)

All significant intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has been passed. Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Manufacturing income is recognised when service rendered.

Interest income is recognised on a time-apportioned basis using the effective interest method.

Dividend income from investments is recognised when the right to receive the dividend has been established.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of the assets less any residual value over their estimated useful lives as follows:

Leasehold buildings	Unexpired period of the rights of using the land on which the building is situated
Leasehold improvements	Lease term or 5 years, whichever is shorter
Plant and machinery	5 to 10 years
Moulds	5 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	3 to 5 years

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (continued)

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to a property, plant and equipment that has already been recognised is added to the carrying amount of the property, plant and equipment when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing property, plant and equipment, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively.

Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are recognised in the income statement when the changes arise.

(d) Goodwill

Goodwill arising on the acquisition of subsidiaries, represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefits from the synergies of the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis.

Provision is made for obsolete, slow-moving or defective inventories in arriving at the net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs on completion of selling expenses.

(f) Land use rights

Land use rights are initially measured at cost. Subsequently, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. Land use rights are amortised over the unexpired period of rights.

(g) Impairment of non-financial assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling prices is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other asset, the recoverable amount is determined for the smallest of asset that generates cash inflows independently (i.e. a cash-generating unit).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of non-financial assets (continued)

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(h) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Income taxes (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and jointly controlled entities, except that where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(i) Provisions

Provisions are recognised when the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

(j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Contingent liabilities and contingent assets (continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(k) Foreign Currencies

(i) Functional and presentation currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements of the Group are presented in Hong Kong dollars (to the nearest thousand).

(ii) Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Transaction difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Foreign Currencies (continued)

(iii) Group Companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

(l) Dividends

Final dividends proposed by the directors are not accounted for in the shareholders' equity as an appropriation of retained profits, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

(i) Financial assets

Financial assets are classified into loans and receivables (including cash and bank balance). All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, prepayments, deposits and other receivables, pledged time deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Financial instruments (continued)

(ii) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the asset after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities including trade payables, accruals and other payables, acquisition cost payable and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

(iii) Derecognition

Financial assets are derecognised if the Group's contractual rights to receive cash flows from the assets expire or, if the Group transfers the financial asset to another party without retaining control or transfers substantially all the risks and rewards of the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract expires or is discharged or cancelled. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the income statement.

(n) Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases.

Rentals on operating leases are charged to income statement on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the income statement when incurred.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Employee benefits

(i) Pension obligations

The Group participates in the defined contribution national pension schemes as provided by the laws of the countries in which it has operations. The contributions to national pension schemes are charged to the income statement in the period in which the contributions relate.

(ii) Employee share–based compensation

The Company operates an equity-settled share-based compensation plan. The fair value of the employee's services received in exchange for the grant of the non-transferable options is recognised as an expense in the income statement with a corresponding increase in employee share option reserve. The fair value is measured at grant date using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. The grant date fair value is spread over the period during which the employees become unconditionally entitled to the options.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

If the stock option expires unexercised, the equity amount is released directly to retained profits.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(iii) Employee leave entitlements

Employee entitlements to annual leave are reconised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the balance sheet date.

(iv) Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, derecting and controlling the activities of the entity. Directors and certain general managers are considered key management personnel.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

During the year, the research and development costs incurred were not significant to the Group and were charged to the income statement.

(q) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or vice versa, or where the parties are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumption concerning the future. The accounting estimates will, by definition, seldom equals the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to be the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Going Concern

The Directors' assessment of the going concern assumption involves making a judgment, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. Major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are disclosed in Note 2.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Useful lives of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these assets to be 3 to 46 years. The carrying amount of the Group's property, plant and equipment at 31 December 2008 was HK$107,510,000 (2007: HK$174,333,000). As changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, future depreciation charges could be revised.

(c) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is involved in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises, as current liabilities, liabilities for anticipated tax audit issues based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Impairment of trade receivables

The allowance for impairment of trade receivables is based on the ongoing evaluation of collectability and aging analysis of the outstanding receivables and on management's judgement. From time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, resulting in an impairment of their ability to make payments, provision may be required. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

(e) Net realisable value of inventories

Net realisable values of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(f) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Group's goodwill at 31 December 2008 was nil (2007: HK$20,414,000). Details of the accounting of goodwill are set out in Note 15 to the financial statements.

(g) Impairment of non-financial assets

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that property, plant and equipment and land use rights may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the assets. Changes in facts and circumstances may affect the conclusion of whether an indication of impairment exists and result in revised estimates of recoverable amounts, which would affect income statement in future years.

7. SEGMENT INFORMATION

Segment information is presented by business segments which is the primary segment of the Group. In determining the geographical segments of the Group, revenues are attributed to the segments based on the location of the customers, and assets attributed to the segments based on the location of the assets.

Inter-segment transactions are determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and expenses, interest-bearing loans, borrowings and expenses and corporate assets and expenses.

7. SEGMENT INFORMATION (CONTINUED)

(a) Business segment

The operating businesses of the Group are structured and managed separately according to the nature of products. Each business segment represents a strategic business unit that offers different products which are subject to risks and returns that are different from the other business segments. Business segments are detailed as follows:

- the self-branded colour cosmetics segment sells materials for the manufacture of make-up products such as foundations, blushers, eye shadows, lipsticks, nail polish and accessories under the brands of the Group.

- the self-branded skin-care segment sells materials for the manufacture of facial and body care products such as facial moisturisers, skin cleansers, toners and astringents, eye gel, bath fluid, hand cream and body lotion under the brands of the Group.

- the third-party manufacturing segment manufactures and sells cosmetics and products.

	Self-branded colour cosmetics		Self-branded skin-care		Third party manufacturing		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue								
External sales	**546,194**	448,804	**197,878**	183,772	**24,405**	-	**768,477**	632,576
Other revenue	**-**	210	**-**	-	**3**	-	**3**	210
Total revenue	**546,194**	449,014	**197,878**	183,772	**24,408**	-	**768,480**	632,786
Segment results	**(147,294)**	127,065	**(41,299)**	56,025	**(114,532)**	(3,824)	**(303,125)**	179,266
Unallocated other income and gains							**3,217**	9,211
Unallocated expenses							**(21,061)**	(23,094)
Finance costs							**(7,188)**	(3,520)
(Loss)/profit before taxation							**(328,157)**	161,863
Taxation							**-**	-
(Loss)/profit after taxation attributable to equity holders of the Company							**(328,157)**	161,863

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

7. SEGMENT INFORMATION (CONTINUED)

	Self-branded colour cosmetics		Self-branded skin-care		Third party manufacturing		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information								
Segment assets	**177,089**	274,808	**69,243**	98,011	**272,550**	333,969	**518,882**	706,788
Unallocated assets							**77,554**	196,072
Total assets							**596,436**	902,860
Segment liabilities	**20,067**	54,841	**2,163**	10,578	**4,518**	104,402	**26,748**	169,821
Unallocated liabilities							**204,037**	144,106
Total liabilities							**230,785**	313,927
Capital expenditure	**81,025**	44,839	**29,354**	18,360	**35,356**	808	**145,735**	64,007
Unallocated amounts							**490**	29
Total capital expenditure							**146,225**	64,036
Depreciation and amortisation	**24,408**	19,441	**8,977**	7,921	**19,568**	1,660	**52,953**	29,022
Unallocated amounts							**745**	504
Total depreciation and amortisation							**53,698**	29,526

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

7. SEGMENT INFORMATION (CONTINUED)

	Self-branded colour cosmetics		Self-branded skin-care		Third party manufacturing		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Non-cash expenses other than depreciation and amortisation								
Loss on disposal of property, plant and equipment	**3,245**	2,445	**1,210**	779	**-**	-	**4,455**	3,224
Unallocated amounts							**57**	-
							4,512	3,224
Impairment loss recognised in respect of trade receivables	**159,480**	3,682	**57,777**	1,487	**-**	-	**217,257**	5,169
Inventory written down	**39,900**	141	**6,758**	-	**-**	-	**46,658**	141
Impairment loss recognised in respect of land use rights	**-**	-	**-**	-	**62,182**	-	**62,182**	-
Impairment loss recognised in respect of goodwill	**-**	-	**-**	-	**20,414**	-	**20,414**	-
Impairment loss recognised in respect of property, plant and equipment	**102,027**	-	**36,963**	-	**26,480**	-	**165,470**	-

Segment revenue and expense

All segment revenue and expenses are directly attributable to the segments.

Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowance and provisions. Segment liabilities include all operating liabilities and consist principally of trade payable, deposits received and accrued liabilities. Segment assets and liabilities do not include income tax assets and liabilities.

Geographical segment

As over 90% of the Group's customer base, revenue, operating results, assets and capital expenditure are attributable to Mainland China, no separate geographical segment analysis is presented.

8. REVENUE

Revenue of the Group represents the net invoiced value of goods sold, after allowance for goods returns, trade discounts and manufacturing profits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

9. (LOSS)/PROFIT BEFORE TAXATION

	2008	2007
	HK$'000	HK$'000
(Loss)/profit before taxation has been arrived at after charging/(crediting):		
Cost of inventories sold	**268,891**	237,111
Depreciation of property, plant and equipment	**48,757**	28,545
Amortisation of land use rights	**4,941**	981
Loss on disposal of property, plant and equipment	**4,512**	3,224
Impairment loss recognised in respect of trade receivables	**217,257**	5,169
Inventories written down	**46,658**	141
Impairment loss recognised in respect of land use rights	**62,182**	-
Impairment loss recognised in respect of goodwill	**20,414**	-
Impairment loss recognised in respect of property, plant and equipment	**165,470**	-
Operating lease rentals	**1,185**	1,184
Employee benefit expenses:		
Directors' remuneration		
- fees	**672**	504
- salaries and related costs	**2,290**	12,127
	2,962	12,631
Key management personnel other than directors		
- salaries and related costs	**2,782**	1,638
- retirement scheme contribution	**39**	30
	2,821	1,668
Employees other than directors and key management personnel		
- salaries and related costs	**19,382**	8,527
- retirement scheme contribution	**608**	198
	19,990	8,725
Interest expenses – bank loans	**7,188**	3,520
Research and development costs	**776**	2,242
Audit fee		
- auditors of the Company	**1,156**	591
- other auditors	**154**	1,191
Exchange loss, net	**1,608**	1,600
Interest income – bank deposits	**(3,067)**	(9,211)

No non-audit fee was paid to the auditors by the Group during the year (2007 Nil).

10. TAXATION

No current taxation for the year ended 31 December 2008 had been provided for in financial statements as the Group did not generate any taxable profits (2007: Nil).

Notes:

(a) Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008/2009. No provision for Hong Kong profit tax has been made for the companies in the Group as they have no assessable profit.

(b) The Group's trading business is conducted by Kist Macao Commercial Offshore Limited, a wholly-owned subsidiary of the Company registered under the Offshore Law of Macau. Macau Profits Tax is calculated at 12% (2007: 12%) on the estimated assessable profits for the year. The profits derived by Kist Macao Commercial Offshore Limited are fully exempt from taxation in Macau.

(c) The Group is subject to the Mainland China's value-added tax ("VAT") at 17% of revenue from the sales of goods in Mainland China. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT receivable/payable.

(d) On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China, which will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. Deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to respective years when the asset is realized or the liability is settled.

Pursuant to the relevant laws and regulations in the PRC, since a subsidiary is established in the PRC in the form of wholly foreign-owned enterprises and engaged in the production activities, they should be entitled to full tax exemption from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from their first profit making year and followed by a 50% reduction on the FEIT for the next three years. No provision for PRC tax has been made for the companies in the Group as they have no assessable profit.

10. TAXATION (CONTINUED)

The tax charge for the year is reconciled to the (loss)/profit before taxation per the consolidated income statement as follows:

	2008 **HK$'000**	2007 HK$'000
(Loss)/profit before taxation	**(328,157)**	161,863
Tax at domestic tax rate applicable to profit of taxable entities in countries concerned	**(51,122)**	19,424
Income not subject to tax	**(9)**	-
Expenses not deductible for taxable purposes	**55**	-
Tax losses not yet recognised	**962**	-
Loss/(profit) exemption from tax haven jurisdictions	**50,114**	(19,424)
Tax charge for the year	**-**	-

No deferred tax asset has been recognised due to the unpredictability of future profit streams at 31 December 2007 and 2008.

11. DIVIDENDS

	2008 **HK$'000**	2007 HK$'000
Dividends declared and paid:		
2006 final dividend of HK$0.03 per ordinary share	**-**	10,271
2007 final dividend of HK$0.03 per ordinary share	**10,692**	-
2008 interim dividend of HK$0.02 per ordinary share	**7,127**	-
	17,819	10,271
Dividends proposed:		
2007 final dividend of HK$0.03 per share proposed on 342,360,620 ordinary shares	**-**	10,271

The directors of the Company had declared and paid the interim dividend of HK$0.02 per ordinary share on 11 November 2008 and do not propose the payment of any final dividends for the year ended 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

12. (LOSS)/EARNINGS PER SHARE

The basic (loss)/earnings per share is calculated based on the consolidated loss attributable to equity holders of the Company of approximately HK$328,157,000 (2007: consolidated profits of approximately HK$161,863,000) on the weighted average number of ordinary shares in issue of 354,126,846 (2007: 342,360,620) in issue after adjusting the effect of new issue.

The following table reflects the share data used in the computation of basic and diluted (loss)/earnings per share for the years ended 31 December:

	2008 **No. of shares**	2007 No. of shares
Weighted average number of ordinary shares used in the calculation of basic earning per share	**354,126,846**	342,360,620
Effect of dilutive potential ordinary shares on issue of share for acquisition of subsidiaries	**-**	499,609
Effect of dilutive potential ordinary shares on the conversion of share options granted	**-**	4,059,928
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**354,126,846**	346,920,157

Diluted loss per share of the year ended 31 December 2008 were the same as the basic loss per share. The Company's outstanding share options were not included in the calculation of diluted loss per share because the effects of the Company's outstanding share options were anti-dilutive.

Diluted earnings per share for the year ended 31 December 2007 is calculated based on the consolidated profits attributable to equity holders of approximately HK$161,863,000 divided by 346,920,157 ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost							
At 1 January 2007	-	553	-	193	2,052	65,467	68,265
Additions	423	-	15,253	-	-	48,360	64,036
Disposals	-	-	-	(193)	-	(21,483)	(21,676)
Acquisition of subsidiaries (Note 25)	77,907	-	10,180	-	2,597	2,804	93,488
Effect of movement in exchange rates	1,880	14	36	-	105	104	2,139
At 31 December 2007	80,210	567	25,469	-	4,754	95,252	206,252
Additions	6,496	483	27,612	24,862	907	85,865	146,225
Disposals	-	(343)	-	-	(736)	(27,685)	(28,764)
Effect of movement in exchange rates	5,469	22	104	-	231	258	6,084
At 31 December 2008	92,175	729	53,185	24,862	5,156	153,690	329,797
Accumulated depreciation and impairment losses							
At 1 January 2007	-	473	-	188	452	20,650	21,763
Depreciation for the year	253	45	1,129	5	507	26,606	28,545
Eliminated on disposals	-	-	-	(193)	-	(18,259)	(18,452)
Effect of movement in exchange rates	18	10	2	-	13	20	63
At 31 December 2007	271	528	1,131	-	972	29,017	31,919
Depreciation for the year	2,006	89	2,615	1,560	710	41,777	48,757
Eliminated on disposals	-	(343)	-	-	(361)	(23,229)	(23,933)
Impairment loss recognised	-	-	39,318	23,302	-	102,850	165,470
Effect of movement in exchange rates	9	12	1	-	22	30	74
At 31 December 2008	2,286	286	43,065	24,862	1,343	150,445	222,287
Net book value							
At 31 December 2008	**89,889**	**443**	**10,120**	**-**	**3,813**	**3,245**	**107,510**
At 31 December 2007	79,939	39	24,338	-	3,782	66,235	174,333

During the year, the Group carried out a review of the recoverable amount of certain of its property, plant and equipment with reference to the cash flow projection based on financial forecast approved by management of the Group ("Management") covering a two-year period. Key assumptions of cash flow projection are determined by Management based on past experience and considerations of global economic downturn and uncertainties of future market outlook. The review led to the recognition of impairment loss of approximately HK$165,470,000 and has been recognised in consolidated income statement.

The Group's leasehold buildings are situated in Zhuhai, Mainland China and are held under medium-term leases for 46 years since August 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year, the Group performed a valuation on its leasehold buildings with reference to a valuation carried out by BMI Appraisals Limited, a firm of independent qualified valuers not connected to the Group, for the purpose of assessing the recoverable amount. The valuation based on open market value was assessed at approximately HK$91 million.

14. LAND USE RIGHTS

	2008	2007
	HK$'000	HK$'000
Cost		
At 1 January	**212,744**	-
Acquired on acquisition of subsidiaries (Note 25)	-	207,752
Effect of movements in exchange rates	**14,529**	4,992
At 31 December	**227,273**	212,744
Accumulated amortisation and impairment losses		
At 1 January	**1,001**	-
Amortisation for the year	**4,941**	981
Effect of movements in exchange rates	**103**	20
Impairment loss recognised	**62,182**	-
At 31 December	**68,227**	1,001
Net carrying amounts	**159,046**	211,743
Amounts to be amortised:		
- Not later than one year	**3,534**	4,625
- Later than one year not later than five years	**14,137**	18,500
- Later than five years	**141,375**	188,618

Land use rights are allocated in Zhuhai, Mainland China for 46 years since August 2007 and held under medium-term.

During the year, the Group performed impairment test on the Group’s land use rights with reference to a valuation carried out by BMI Appraisals Limited, a firm of independent qualified valuers not connected to the Group, for the purpose of assessing the recoverable amount.

15. GOODWILL

	2008	2007
	HK$'000	HK$'000
Cost		
At 1 January	**20,414**	-
Acquired on acquisition of subsidiaries (Note 25)	**-**	20,414
At 31 December	**20,414**	20,414
Accumulated impairment loss		
At 1 January	**-**	-
Impairment loss recognised	**20,414**	-
At 31 December	**20,414**	-
Net carrying amounts	**-**	20,414

On 2 October 2007, the Group acquired the entire interest in the issued share capital of Fu Teng International Limited and its subsidiaries (collectively as "Fu Teng Group") for consideration approximately of HK$325,137,000 and was settled by HK$223,174,000 in cash and issue of 14,027,488 ordinary shares with a fair value of S$1.4 each, being the published price of the Company's shares at the date of exchange. As a result, a positive goodwill of approximately HK$20,414,000 arose from the acquisition of Fu Teng Group (Note 25)

Impairment of goodwill

For the purpose of impairment testing, the carrying amount of goodwill as at 31 December 2008 is allocated to the Group's third-party manufacturing segment. The recoverable amount of the cash-generating units ("CGU") was assessed with reference to the valuation performed by BMI Appraisals Limited, based on value-in-use calculations. The discount rate of 14.2% per annum was applied in the value-in-use model which uses cash flow projection based on financial forecast approved by management covering a five-year period. There are number of assumptions and estimates involved for the preparation of the cash flow projection for the period covered by the forecast. Key assumptions include gross margin, growth and discount rate which are determined by management of the Group based on past experience and its expectation for market development. Gross margin is budgeted gross margin. Growth rate represents the rate used to extrapolate cash flows beyond the ten-year budget period and is consistent with the forecast. The discount rate used is pre-tax and reflects specific risks relating to the market.

Based on the above evaluation, the management of the Group determined the impairment loss of goodwill is approximately HK$20,414,000 at 31 December 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

16. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**53,822**	39,019
Finished goods	**-**	501
	53,822	39,520

At 31 December 2008, the inventories of approximately HK$42,672,000 are carried at net realisable value (2007: Nil).

17. TRADE RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables	**328,738**	224,700
Less: Impairment loss recognised	**(217,257)**	(12,293)
Trade receivables - net	**111,481**	212,407

Notes:

i. The credit risk for trade receivables based on the information provided to key management is as follows:

	2008 HK$'000	2007 HK$'000
By geographical areas		
Mainland China	**111,471**	212,261
Other countries	**10**	146
	111,481	212,407

ii. The average credit period on sale of goods is 90 days. No interest is charged on the trade receivables.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

17. TRADE RECEIVABLES (CONTINUED)

Notes (continued):

iii. The ageing analysis of trade receivables is as follows:

	2008	2007
	HK$'000	HK$'000
No past due	**66,758**	196,367
Past due 0-30 days	**38,651**	16,040
Past due over 30 days	**6,072**	-
	111,481	212,407

iv. The movement for impairment loss recognised in respect of trade receivables was as follows:

	2008	2007
	HK$'000	HK$'000
Balance at 1 January	**12,293**	7,124
Amount written off during the year	**(12,293)**	-
Impairment loss recognised	**217,257**	5,169
Balance at 31 December	**217,257**	12,293

v. All trade receivables of the Group are denominated in Hong Kong dollars:

vi. Included in the trade receivables balances are debtors with an aggregate carrying amount of approximately HK$44,723,000 (2007: HK$3,747,000) which are overdue at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable, as there are agreed repayment plans. The Group does not hold any collateral over these balances.

The aging of trade receivables which are overdue but not impaired was as follows:

	2008	2007
	HK$'000	HK$'000
Past due 0-30 days	38,651	16,040
Past due over 30 days	6,072	-
	44,723	16,040

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2008	2007
	HK$'000	HK$'000
Prepaid advertising and promotion expenses	**82,932**	43,487
Deposits	**1,439**	6,281
Advances to a supplier	**8,751**	-
Other receivables	**866**	791
	93,988	50,559

Note:

i. The prepayments, deposits and other receivables are denominated in the following currencies:

	2008	2007
	HK$'000	HK$'000
Hong Kong dollars	**26,344**	484
Renminbi	**67,644**	49,998
Other	**-**	77
	93,988	50,559

ii. None of the above assets is either past due or impaired.

19. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the consolidated cash flow statement can be reconciled to the related items in the consolidated balance sheet as follows:

		2008	2007
	Note	**HK$'000**	HK$'000
Cash and bank balances		**64,582**	191,229
Pledged time deposits		**6,007**	2,655
		70,589	193,884
Less: Pledged time deposits for bank borrowings	24	**(6,007)**	(2,655)
Cash and cash equivalents		**64,582**	191,229

19. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS (CONTINUED)

The cash and cash equivalents and pledged time deposits are denominated in the following currencies:

	2008	2007
	HK$'000	HK$'000
Hong Kong Dollars	**70,312**	193,312
Singapore Dollars	**4**	196
Renminbi	**131**	329
Others	**142**	47
	70,589	193,884

Bank balances earn interest at floating rates based on daily bank deposit rates, ranging from 1.31% to 1.80% (2007: 1.31% to 3.34%) per annum.

Pledged time deposits were carried at the prevailing market interest rate. At 31 December 2008, the Group had banking facilities granted by a bank amounting to HK$20,000,000 (2007: HK$20,000,000) which were secured by the pledged time deposits of the Group and corporate guarantees provided by the Company and a subsidiary (Note 28). The pledged time deposits will be released upon the settlement of relevant bank borrowings.

At 31 December 2008, the Group had undrawn committed borrowing facilities of approximately HK$568,000 (2007: HK$15,000,000).

20. SHARE CAPITAL

	Number of ordinary shares		**Share capital**	
	2008	2007	**2008**	2007
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary share of HK$0.10 each	**20,000,000**	20,000,000	**2,000,000**	2,000,000
Issued and fully paid:				
At 1 January	**342,360**	342,360	**34,236**	34,236
Issue of shares upon acquisition of subsidiaries (note iii)	**14,027**	-	**1,403**	-
At 31 December	**356,387**	342,360	**35,639**	34,236

20. SHARE CAPITAL (CONTINUED)

Notes:

i. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' general meetings. All shares rank equally with regard to the Company's residual assets.

ii. At 31 December 2008, the Group have 10,400,000 (2007: 10,400,000) outstanding employee share options to subscribe for HK$0.10 ordinary shares each at an exercise price of S$0.70 per ordinary share. The share options are detailed in Note 32.

iii. In February 2008, the Company issued 14,027,488 new shares of the Company upon completion of the acquisition of Fu Teng Group. Detail of which will set out in Note 25.

21. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2008	2007
	HK$'000	HK$'000
0 – 30 days	**13,948**	41,504
31 – 60 days	**7,164**	18,357
61 – 90 days	**754**	-
Over 90 days	**159**	-
	22,025	59,861

Notes:

i. Trade payables are denominated in the following currencies:

	2008	2007
	HK$'000	HK$'000
United States Dollars	**169**	8,050
New Taiwan Dollars	**20,811**	50,909
Japanese Yens	**609**	902
Renminbi	**436**	-
	22,025	59,861

ii. Trade payables are normally settled on 30-60 days terms.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

22. ACCRUALS AND OTHER PAYABLES

	2008	2007
	HK$'000	HK$'000
Deposits received	**109**	348
Accruals	**7,130**	18,996
Other payables	**376**	1,026
	7,615	20,370

Notes:

i. Accruals and other payables are denominated in the following currencies:

	2008	2007
	HK$'000	HK$'000
New Taiwan Dollars	**2,020**	12,910
Renminbi	**5,193**	6,025
Other	**402**	1,435
	7,615	20,370

ii. The carrying amounts of accruals and other payables approximate to their fair values.

23. ACQUISITION COST PAYABLE

On 26 February 2007, the Company entered into a share purchase agreement with Triwinner Investment Limited, an independent third party, in relation to the acquisition of the entire issued and paid-up share capital of Fu Teng International Limited which owns, through its wholly-owned subsidiary, Zhuhai City Mei Zhi Hui Rui Hua Co., Ltd., a cosmetics production facility in Zhuhai, China, for consideration of approximately HK$325,137,000, comprising 75% in cash, which was fully paid by the Group during the financial year ended 31 December 2007, and 25% in new shares of the Company, which were issued subsequent to the year end on 29 February 2008 (Note 25). Details of the acquisition had been disclosed in the Company's announcement dated 27 February 2007.

Acquisition cost payable represented the total value of 14,027,488 ordinary shares of the Company issued at S$1.40 each, being its published price at 2 October 2007, the completion date of the acquisition.

24. BANK BORROWINGS, SECURED

	2008	2007
	HK$'000	HK$'000
Interest-bearing bank borrowings, secured	**154,927**	85,515

The maturity of the above borrowings is as follows:

Amounts due within one year	**154,927**	85,515

The bank borrowings are denominated in the following currencies:

	2008	2007
	HK$'000	HK$'000
Hong Kong dollars	**149,245**	80,196
Renminbi	**5,682**	5,319

The ranges of effective interest rate ranging from 4.87% to 5.48% (2007: 5.26% to 6.42%) per annum and were repayable by instalments over the borrowings period.

At 31 December 2008, the Group's bank borrowings were secured by:

(i) Pledged deposit amounting to HK$6,007,000 (Note 19); and

(ii) Corporate guarantees provided by the Company and Group's subsidiaries.

On 9 March 2009 and 7 April 2009, the Group received statutory demands from Lenders and Banks for termination of banking facilities and demand of repayment of the entire principal and interest outstanding. The details are set out in Note 34(c) and 34(d).

During the year, the non-current portion of related bank borrowings amounting to HK$74,129,000 have been classified as current liability in the consolidated balance sheet as at 31 December 2008.

25. ACQUISITION OF SUBSIDIARIES

On 2 October 2007, the Group acquired the entire interest in the issued share capital of Fu Teng Group for consideration of approximately HK$325,137,000 and comprised cash payments of HK$219,750,000, directly attributable professional fees of HK$3,424,000 and the issue of 14,027,488 ordinary shares of S$1.4 each, being the published price of the Company's shares at the date of exchange, equivalently to approximately HK$101,963,000. The amount of goodwill arising as a result of the acquisition was HK$20,414,000.

The fair values of net assets acquired and goodwill arising are as follows:

	Recognised on date acquisition HK$'000	Carrying amount before combination HK$'000
Property, plant and equipment (Note 13)	**93,488**	**93,488**
Land use rights (Note 14)	**207,752**	**207,752**
Other receivables	**7,155**	**7,155**
Cash and cash equivalents	**2,944**	**2,944**
Other payables	**(6,616)**	**(6,616)**
Net assets acquired	**304,723**	**304,723**
Goodwill (Note 15)	**20,414**	
	325,137	

The effect of the acquisition on cash flows is as follows:

	HK$'000
Net cash flow from acquisition of subsidiaries:	
Cash paid	**223,174**
Cash and cash equivalents acquired	**(2,944)**
	220,230

From the date of acquisition, Fu Teng Group contributed a loss of HK$3,751,000 to the Group's income statement for the year ended 31 December 2007. Fu Teng Group made a loss of HK$4,101,000 and did not generate any revenue from 1 January 2007 to the date of acquisition. If the combination had taken place at the beginning of the year, the profit of the Group would have been HK$157,762,000 and revenue would have been HK$632,576,000.

26. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, during the year ended 31 December 2008, the Group had entered into the following material related party transactions.

Compensation of key management personnel

	2008	2007
	HK$'000	HK$'000
Short-term employee benefits	**5,744**	14,269
Pension and post-employment benefits	**39**	30
Total compensation paid to key management personnel	**5,783**	14,299
Comprise of:		
Directors of the Company	**2,962**	12,631
Key management personnel other than directors	**2,821**	1,668
	5,783	14,299

27. SUBSIDIARIES

The details of subsidiaries are as follow:

Name	**Country of incorporation**	**Percentage of equity held 2008 %**	**2007 %**	**Principal activities**
Directly held:				
Colour Zone Limited [3]	British Virgin Islands ("BVI")	**100**	100	Investment holding
Indirectly held:				
Kist Macao Commercial Offshore Limited [1][4]	Macau	**100**	100	Trading of raw materials for colour cosmetics and skincare products
Colour Zone (H.K.) Limited [5]	Hong Kong	**100**	100	Trading of colour cosmetic products
Asset Global Profits Limited [3]	BVI	**100**	100	Intellectual property holding
Zhuhai Handsome Jingxi Cosmetics Technology Development Co., Ltd. [2][6]	Mainland China	**100**	100	Provision of technical support, quality control and marketing services

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

27. SUBSIDIARIES (CONTINUED)

The details of subsidiaries are as follow:

Name	Country of incorporation	Percentage of equity held 2008 %	2007 %	Principal activities
Colour Cosmetic Limited [(3)]	BVI	**100**	100	Dormant
Colour Zone Beauty Limited [(3)]	BVI	**100**	100	Dormant
Maine Consultants Ltd. [(3)]	BVI	**100**	100	Dormant
Kist Corporation [(3)]	BVI	**100**	100	Investment holding
Fu Teng International Limited [(3)]	Samoa	**100**	100	Investment holding
Kist Trading Limited [(5)]	Hong Kong	**100**	100	Dormant
Zhuhai City Mei Zhi Hui Ri Hua Co., Ltd. [(1)(7)(8)]	Mainland China	**100**	100	Manufacturing of cosmetics skin care products
Ace Advice International Limited [(3)]	BVI	**100**	-	Dormant

(1) Significant subsidiary.

(2) A wholly foreign investment enterprise with a registered capital of HK$20,000,000 and was granted an operation period of 10 years commencing from 10 July 2003. The registered capital was fully paid up on 23 December 2006.

(3) Not required to be audited by the law of its country of incorporation.

(4) Audited by Leong Kam Chun & Co., Macau. The financial statements were re-audited in accordance with IFRS for consolidation purpose by HLB Hodgson Impey Cheng, Hong Kong.

(5) Audited by HLB Hodgson Impey Cheng, Hong Kong.

(6) Audited by Zhuhai T&H Certified Public Accountants, Zhuhai, Mainland China.

(7) A wholly foreign investment enterprise with a registered capital of HK$70,000,000 and was granted an operation period of 30 years commencing from 8 March 2003. At 31 December 2008, the paid-up capital was certified to be HK$46,000,000.

(8) Audited by Zhuhai He Tong Tai Certified Public Accountants, Zhuhai, Mainland China.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

28. CONTINGENT LIABILITIES

The Company has provided a corporate guarantee for an amount of HK$20,000,000 (2007: HK$20,000,000) to a bank for banking facilities granted to its subsidiaries (Note 24).

The Group has given corporate guarantees of HK$155,000,000 (2007: HK$100,000,000) to secure banking facilities and a bank loan.

29. COMPARATIVE FINANCIAL INFORMATION

Certain comparative figures have been restated to conform with current year's presentation.

30. COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office premises under non-cancellable operating lease arrangements for terms ranging from one to two years with no renewal options or escalation clauses included in the contracts. At the balance sheet date, the Group had the following future minimum lease payments:

	2008	2007
	HK$'000	HK$'000
Not later than one year	**850**	1,024
Later than one year and not later than five years	**508**	342
	1,358	1,366

(b) Capital commitments

	2008	2007
	HK$'000	HK$'000
Capital expenditure contracted but not provided for in the financial statements		
- in respect of property, plant and equipment	**3,063**	6,027
- in relation to investment in a subsidiary	**24,000**	24,000
	27,063	30,027

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, deposits, prepayment and other receivables, pledged time deposits, cash and bank balances, trade payables, accruals and other payables, acquisition cost payables and bank borrowings. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

	2008	2007
	HK$'000	HK$'000
Financial assets		
Loan and receivables (including cash and bank balance)	**276,058**	456,850
Financial liabilities		
Amortised costs	**184,567**	267,709

The Group's management monitors and manages the financial risks relating to the operations of the Group through its analysis on the exposures by degree and magnitude of risks. The risks relating to the operations of the Group are mainly credit risk, market risk and liquidity risk.

(a) Financial risk factors

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the trade and other receivables as stated in the consolidated balance sheet. No other financial assets carry a significant exposure to credit risk.

In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. Aging analysis of the Group's trade receivables is disclosed in Note 17. The Directors are of the opinion that adequate provision for uncollectible receivables has been made. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical location is mainly in Mainland China.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

Interest rate risk

The Group has no significant interest-bearing assets, the Group's income and operating cash flow are substantially independent of change in market interest rates.

The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank borrowings at variable rates expose the Group to fair value interest-rate risk (see Note 24 for details of bank borrowings). The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The table below analyses the effect on the Group's financial cost in the income statement arising from interest bearing borrowing in the next year should the interest rate be changed.

	Change of financial cost Increase/(decrease) of the interest rate by 0.5% HK$'000
For the year ended 31 December 2007	428
For the year ended 31 December 2008	775

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group has received the statutory demands for repayment of the borrowings (see Note 24 for details of bank borrowings) and termination of the Group's banking facilities from its syndicated lenders and bankers (see Notes 34(c) and 34(d)). The Group is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

Liquidity risk (continued)

The Directors have given careful consideration on the measures currently undertaking in respect of the Group's liquidity position. As detailed in Note 2, the Directors believe that the Group will be able to meet in full its financial obligations as they fall due, subject to the outcome of negotiations with the Group's syndicated lenders and bankers to reschedule the Group's borrowings, the outcome of the negotiations between the Company and the potential investors and the outcome of obtaining potential financial support from the shareholders of the Company.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2008 and 2007. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest	Up to 1 month	1 month to 3 months	3 months to 1 years	1 year to 5 years	Total
At 31 December 2008						
Trade payables	-	8,233	13,792	-	-	22,025
Accruals and other payables	-	7,615	-	-	-	7,615
Bank borrowings, secured	5.43%	46,927	-	108,000	-	154,927
		62,775	13,792	108,000	-	184,567
At 31 December 2007						
Trade payables	-	41,504	18,357	-	-	59,861
Accruals and other payable	-	16,291	2,409	159	1,511	20,370
Acquisition cost payable	-	-	101,963	-	-	101,963
Bank borrowings, secured	6.31%	515	-	85,000	-	85,515
		58,310	122,729	85,159	1,511	267,709

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Financial risk factors (continued)

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign currency risk arises when the Group's recognised assets and liabilities are denominated in a currency that is not the group entity's functional currency. The Group has not used any financial instruments to hedge against this currency risk. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The monetary assets and liabilities of group entities which are denominated in a currency other than their respective functional currency are mainly prepayments, deposits and other receivables, bank borrowings and trade payables are denominated in Renminbi and New Taiwan Dollars, and are summarised as follows:

	2008	2007
	HK$'000	HK$'000
Asset:		
Renminbi	**67,644**	49,998
Liabilities:		
Renminbi	**10,875**	11,344
New Taiwan Dollars	**22,831**	63,819

Sensitivity analysis on currency risk

At the respective balance sheet dates, if exchange rates of the functional currency of relevant group entities against Renminbi and New Taiwan had been appreciated/depreciated by 3% and all other variables were held constant, the Group's profit would increase/decrease by approximately HK$1,703,000 and HK$685,000 (2007: HK$1,160,000 and HK$1,915,000) for the year. The amounts were mainly attributed to the exposure on Renminbi on prepayments, deposits and other receivables and bank borrowings and New Taiwan Dollars on trade payables of the Group at the year end.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Fair value estimation

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions,

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments of the Company.

Other financial assets and liabilities

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, and trade and other payables) approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

(c) Capital risk management

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity balance. As detailed in Note 2, the Directors believe the Group can continue as a going concern basis, subject to the outcome of negotiations with the Group's syndicated lenders and bankers to reschedule the Group's borrowings, the outcome of the negotiations between the Company and the potential investors and the outcome of obtaining potential financial support from the shareholders of the Company.

The capital structure of the Group consists of debts which include bank borrowings disclosed in Note 24, cash at bank and in hand and equity attributable to equity holders, comprising issued capital, reserves and retained profits respectively.

The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as total bank borrowings divided by total assets.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Capital risk management (continued)

	2008 **HK$'000**	2007 HK$'000
Total bank borrowings	**154,927**	85,515
Total assets	**596,436**	902,860
Gearing ratio	**26.0%**	9.5%

The increase in gearing ratio was principally a result from the obtaining of new bank loan during the year. The Directors monitors its current and expect liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

32. EMPLOYEE SHARE OPTIONS

Share options are granted to key management (including executive and non-executive directors) and employees with more than 12 months of service under the Beauty China Employee Share Option Scheme (the "ESOS") which was approved by the shareholders at an Extraordinary General Meeting held on 26 September 2003.

On 7 October 2005, options of 10,400,000 shares with exercise price of S$0.70 per share were granted under the ESOS. These options are exercisable from 7 October 2006 to 6 October 2015.

The following table illustrates the number and weighted average exercise price of share options granted under the Company's share option plan:

	2008		2007	
	Number of share options	**Weighted average exercise price S$**	Number of share options	Weighted average exercise price S$
Outstanding and exercisable at beginning and end of year	**10,400,000**	**0.7**	10,400,000	0.7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

32. EMPLOYEE SHARE OPTIONS (CONTINUED)

Stock options granted in 2005 have nil weighted average fair value.

The options outstanding at 31 December 2008 have a weighted average contractual life of 7 years (31 December 2007: 8 years).

No share option was granted or exercised or forfeited or expired during the year.

The fair value of share options as at the date of grant, is estimated using a Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used are shown below:

Weighted average share price	S$0.69
Weighted average exercise price	S$0.70
Expected volatility	51.06%
Expected option life	1 year
Risk free interest rate	2.25%
Expected dividend yield	1%

The exercise price of the granted options is equal to the average of the last traded prices of the shares of the Company on the Singapore Exchange for the five consecutive market days immediately preceding the date of grant. The Company has no legal or constructive obligation to settle the options in cash.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Other than stated, other features of the option grant were incorporated into the measurement of fair value.

33. DIRECTORS' REMUNERATION

The following numbers of directors in the remuneration bands are disclosed in compliance with The Singapore Exchange Listing Manual:

	Executive directors	Independent directors	Total
2008			
Below S$250,000 (equivalent to approximately HK$1,355,000)	4	4	8
S$250,000 to below S$500,000 (equivalent to approximately HK$1,355,000 to below HK$2,710,000)	-	-	-
S$500,000 or above (equivalent to approximately HK$2,710,000 or above)	-	-	-
	4	4	8
2007			
Below S$250,000 (equivalent to approximately HK$1,355,000)	-	3	3
S$250,000 to below S$500,000 (equivalent to approximately HK$1,355,000 to below HK$2,710,000)	1	-	1
S$500,000 or above (equivalent to approximately HK$2,710,000 or above)	2	-	2
	3	3	6

34. EVENTS AFTER THE BALANCE SHEET DATE

(a) On 19 January 2009, Colour Zone Limited, a wholly-owned subsidiary of the Company entered into sale and purchase agreements with Tiger Speed Limited, a company with common director of the Company, to dispose of the entire interests in Colour Cosmetic Limited, Colour Zone Beauty Limited and Maine Consultants Ltd.. The total consideration for the disposals was HK$3 in cash. The details are set out in the Company's announcement dated 21 January 2009.

(b) On 6 January 2009, Zhuhai City Mei Zhi Hui Rui Hua Co. Ltd., a wholly-owned subsidiary of the Company entered into a banking facilities agreements with Bank of China, for the grant of banking facilities granted amounting to RMB20,000,000, of which RMB15,000,000 were utilised. The new bank borrowings were secured by the land use rights (Note 14).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 December 2008

34. EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

(c) On 9 March 2009, the Company had received a statutory demand from the Company's syndicated lenders for the repayment of the entire principal and interest outstanding on the loan amounting to approximately HK$133,728,000. The details are set out in the Company's announcement dated 12 March 2009.

(d) On 7 April 2009, two subsidiaries of the Company received notices from banks for termination of banking facilities and demand of repayment of the entire principal and interest outstanding, amounting to approximately HK$12,989,000 and RMB5,001,000. The details are set out in the Company's announcement dated 9 April 2009.

(e) On 20 April 2009, the Company received a non-binding conditional offer from Dunross Asia Pte Ltd, on behalf of Dunross Group, Zesiger Capital Group LLC, Blue Pool Capital Group LLC, Blue Pool Capital, Krohne Capital, Sean Wright and certain other investors (collectively, the "Investors") whereas the Company undertakes a right issue of ordinary shares in the capital of the Company of the existing shareholders to raise gross proceeds of S$32,070,000 (approximately HK$172,386,000) by the way of 2 rights shares for every 1 existing share in the capital of the Company at a price of S$0.045 per right share. The details are set out in the Company's announcement dated 21 April 2009.

(f) On 15 May 2009, the Company appointed BNP Paribas Capital (Asia Pacific) Limited as a financial adviser to assist the Company to review all strategic options including but not limited to co-ordinating with potential investors who are currently in discussions with the Company, introducing new strategic investors and undertaking rights issue with the aim to provide an optimal solution to address its going concern issue currently confronting the Company.

--------- End of Notes--------

Statistics of Shareholdings
As at 8 June 2009

SHARE CAPITAL

Authorised share capital	:	HK$2,000,000,000
Issued and fully paid-up capital	:	HK$35,638,811
Class of shares	:	Ordinary shares of HK$0.10 each
Voting rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	14	1.03	2,629	0.00
1,000 – 10,000	671	49.41	3,934,856	1.10
10,001 – 1,000,000	658	48.45	36,091,796	10.13
1,000,001 AND ABOVE	15	1.11	316,358,827	88.77
Total	1,358	100.00	356,388,108	100.00

SUBSTANTIAL SHAREHOLDERS
As shown in the Register of Substantial Shareholders:

	Direct Interest		Deemed Interest	
Name of Shareholders	No. of Shares	%	No. of Shares	%
Lucky Gain International Limited [(1)]	108,731,007	30.51	-	-
Wong Hon Wai[(1)]	-	-	108,731,007	30.51
Zesiger Capital Group LLC[(2)]	-	-	25,227,000	7.08
Dunross Investment Ltd	28,516,000	8.00	-	-

Notes:

(1) Lucky Gain International Limited ("Lucky Gain") is beneficially owned entirely by Mr Wong Hon Wai. As such, Mr Wong Hon Wai is deemed to be interested in the 108,731,007 shares held by Lucky Gain.

(2) Zesiger Capital Group LLC ("Zesiger Capital") is a full discretion fund management company. As such, Zesiger Capital is deemed to be interested in the 25,227,000 shares through its discretionary holdings on behalf of its clients.

SHAREHOLDINGS HELD IN THE HANDS OF PUBLIC

Based on the information available to the Company as at 8 June 2009, approximately 53.32% of the issued ordinary shares of the Company are held by the public. Accordingly the Company has complied with Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited.

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	No. of Shares	%
1.	Lucky Gain International Ltd	108,731,007	30.51
2.	DBS Nominees Pte Ltd	77,665,179	21.79
3.	Citibank Nominees Singapore Pte Ltd	43,647,300	12.25
4.	Merrill Lynch (Singapore) Pte Ltd	29,296,386	8.22
5.	DBSN Services Pte Ltd	16,047,000	4.50
6.	Raffles Nominees Pte Ltd	15,302,650	4.29
7.	HSBC (Singapore) Nominees Pte Ltd	13,911,000	3.90
8.	Kim Eng Securities Pte. Ltd.	2,314,000	0.65
9.	UOB Kay Hian Pte Ltd	1,940,000	0.54
10.	OCBC Securities Private Ltd	1,573,000	0.44
11.	DB Nominees (S) Pte Ltd	1,519,600	0.43
12.	DBS Vickers Securities (S) Pte Ltd	1,119,000	0.31
13.	CIMB-GK Securities Pte. Ltd.	1,103,705	0.31
14.	Tay Han Tung	1,100,000	0.31
15.	Phillip Securities Pte Ltd	1,089,000	0.31
16.	Lim Seng Kuan	762,000	0.21
17.	Lim Ku-Hua Jana (Lin Guohua Jana)	650,000	0.18
18.	Chong Thim Pheng	600,000	0.17
19.	Lim & Tan Securities Pte Ltd	598,000	0.17
20.	Low Kok Soon	587,000	0.16
	TOTAL	319,555,827	89.65

NOTICE OF ANNUAL GENERAL MEETING

BEAUTY CHINA HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Company Registration No.:118384)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Beauty China Holdings Limited (the "**Company**") will be held at Orchard Ballroom 3, Level 3, Orchard Hotel, 442 Orchard Road, Singapore 238879 on Monday, 6 July 2009 at 3.00 p.m. to transact the following ordinary and special businesses:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Audited Accounts of the Company for the financial year ended 31 December 2008 and the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect Mr Wong Hon Kin, a Director retiring pursuant to Article 85(6) of the Articles of Association of the Company. **(Resolution 2)**

3. To re-elect Mr Tong Hing Wah, a Director retiring by rotation pursuant to Article 86(1) of the Articles of Association of the Company. [See Explanatory Note (i)] **(Resolution 3)**

4. To approve the payment of Directors' fees of HK$672,000 for the financial year ended 31 December 2008 (2007 : HK$504,000). **(Resolution 4)**

5. To re-appoint Messrs Foo Kon Tan Grant Thornton and Messrs HLB Hodgson Impey Cheng, as Joint Auditors of the Company, and to authorise the Directors to fix their remuneration. **(Resolution 5)**

6. To transact any other ordinary business that may be transacted at an annual general meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as an Ordinary Resolutions, with or without any modifications: -

7. **Authority to allot and issue shares up to fifty per cent. (50%) of the total number of issued shares**

   "That pursuant to the relevant listing rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors to:

(a) (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this authority may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this authority was in force,

provided that:

(1) the aggregate number of shares to be issued pursuant to such authority (including shares to be issued in pursuance of Instruments made or granted pursuant to this authority) does not exceed fifty per cent. (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro-rata basis to the existing shareholders (including shares to be issued in pursuance of Instruments made or granted pursuant to this authority) does not exceed twenty per cent. (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of the issued share capital shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this authority is given, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this authority is passed; and

(ii) any subsequent consolidation or sub-division of shares; and

(3) (unless revoked or varied by the Company in general meeting) the authority conferred by this authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier." [See Explanatory Note (ii)] **(Resolution 6)**

8. **Authority to allot and issue shares up to one hundred per cent. (100%) of the total number of issued shares via a pro-rata renounceable rights issue**

"That pursuant to the relevant listing rules of the SGX-ST, authority be and is hereby given to the Directors to issue shares in the capital of the Company by way of a pro-rata renounceable rights issue at any time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided that:

(1) the aggregate number of shares to be issued pursuant to such authority does not exceed one hundred per cent. (100%) of the total number of issued shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the percentage of the issued share capital shall be based on the total number of issued shares (excluding treasury shares) in the capital of the Company at the time this authority is given, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this authority is passed; and

(ii) any subsequent consolidation or sub-division of shares; and

(3) (unless revoked or varied by the Company in general meeting) the authority conferred by this authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier." [See Explanatory Note (iii)] **(Resolution 7)**

9. **Authority to allot and issue shares on a non pro-rata basis at a discount not exceeding twenty per cent. (20%) of the total number of issued shares**

"That subject to and pursuant to the share issue mandate in Ordinary Resolution 6 above being obtained, authority be and is hereby given to the Directors of the Company to issue new shares on a non pro-rata basis to shareholders of the Company at an issue price per new share which shall be determined by the Directors in their absolute discretion provided that such price shall not be more than a twenty per cent. (20%) discount to the weighted average price per share determined in accordance with the requirements of the SGX-ST." [See Explanatory Note (iv)] **(Resolution 8)**

10. **Authority to offer and grant options and issue shares in accordance with the provisions of the Beauty China Employee Share Option Scheme**

"That the Directors be and are hereby empowered to offer and grant options, and to allot and issue from time to time such number of shares as may be required to be issued pursuant to the exercise of options granted in accordance with the provisions of the Beauty China Employee Share Option Scheme (the "**Scheme**") provided always that the aggregate number of shares in respect of which such options may be granted and which may be issued pursuant to the Scheme shall not exceed fifteen per cent. (15%) of the issued share capital of the Company from time to time." [See Explanatory Note (v)] **(Resolution 9)**

BY ORDER OF THE BOARD

WONG KIN TAK
HO CHEE TONG
BENNY LIM HENG CHONG
JOINT COMPANY SECRETARIES

Singapore, 19 June 2009

Explanatory Notes:

(i) Mr Tong Hing Wah, upon re-election as a Director of the Company, will remain as Chairman as the Audit Committee and as a member of Nominating and Remuneration Committees and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the SGX-ST.

(ii) The Ordinary Resolution 6, if passed, will authorise the Directors of the Company to allot and issue shares not exceeding fifty per cent. (50%) of the Company's issued share capital (excluding treasury shares), with an aggregate sub-limit of twenty per cent. (20%) of the Company's share capital (excluding treasury shares) for any issue of shares not made on a pro-rata basis to shareholders of the Company.

(iii) The Ordinary Resolution 7, if passed, will authorise the Directors of the Company to allot and issue shares not exceeding one hundred per cent. (100%) of the Company's issued share capital (excluding treasury shares), up from the fifty per cent. (50%) limit on a pro-rata basis as set out in Ordinary Resolution 6 above, only by way of a pro-rata renounceable rights issue. Accordingly, Ordinary Resolutions 6 and 7 do not confer any authority on the Directors to issue shares exceeding, in aggregate, 100% of the total number of issued shares (excluding treasury shares) in the capital of the Company. The mandate sought under Ordinary Resolution 7 is conditional upon the Company:-

(a) making periodic announcements on the use of the proceeds as and when the funds are materially disbursed; and
(b) providing a status report on the use of proceeds in its annual report.

This is one of the new measures introduced by SGX-ST, in consultation with the Monetary Authority of Singapore, to accelerate and facilitate listed issuers' fund raising efforts. This new measures takes effect on 20 February 2009 and will be effective until 31 December 2010.

(iv) The Ordinary Resolution 8, if passed, will authorise the Directors of the Company to allot and issue new shares on a pro-rata basis at a discount not exceeding twenty per cent. (20%), as compared to ten per cent. (10%) allowed previously. This is also a new measure introduced by the SGX-ST, and this authority will continue in force until the next annual general meeting of the Company.

(v) The Ordinary Resolution 9, if passed, will authorise the Directors of the Company, to offer and grant options, and to allot and issue shares upon the exercise of such options in accordance with the Scheme.

Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting of the Company who is the holder of two or more shares is entitled to appoint not more than two proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. If a member of the Company, being a Depositor (as defined in the Articles of the Company) whose name appears in the Depository Register (as defined in the Articles of the Company) wishes to attend and vote at the Annual General Meeting, he must be shown to have shares entered against his name in the Depository Register, as certified by The Central Depository (Pte) Limited.

3. If a member or Depositor wishes to appoint a proxy/proxies, then the Member Proxy Form or Depositor Proxy Form, as the case may be, must be completed, signed and deposited at the office of the Company's Singapore share transfer agent, Boardroom Corporate & Advisory

Services Pte. Ltd., at 3 Church Street #08-01, Samsung Hub, Singapore 049483, at least 48 hours before the time of the Annual General Meeting.

4. If a member who has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members is unable to attend the Annual General Meeting and wishes to appoint a proxy, he should use both the Depository Proxy Form and Member Proxy Form accordingly.

5. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register and has shares registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, the form of proxy will be deemed to relate to all shares held by the member.

6. In any case where an instrument of proxy appoints more than one proxy (including the case when a CDP Proxy Form is used), the proportion of the shareholding concerned to be represented by each proxy shall be specified in the instrument of proxy.

7. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same or, in the case of the Depository, signed by its duly authorised officer by some method or system of mechanical signature as the Depository may deem appropriate. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument or proxy on behalf of the corporation without further evidence of the fact.

8. A Depositor who is an individual and who wishes to attend the Annual General Meeting in person need not take any further action and can attend and vote at the Annual General Meeting as CDP’s proxy without the lodgment of any proxy form.

BEAUTY CHINA HOLDINGS LIMITED
CORRIGENDUM TO ANNUAL REPORT 2008

1. On the content page, page 40 should be read as “Consolidated Statement of Changes in Equity”.

2. On page 33, paragraph (ii) should be read as follows:

   “the consolidated financial statements of the Group for the financial year ended 31 December 2008 as well as the auditors' report thereon; and”

3. On page 34, the second line to the second paragraph should be read as follows:

   “statement, consolidated statement of changes in equity and the consolidated cash flow statement, together with the”

4. On page 44, paragraph (d) should be deleted.

5. On page 47, under the first paragraph of note 5(a), insert the word “are” before “made up”.

6. On page 51, under the first paragraph of note 5(g)(ii), insert the word “to” before “the reversal”.

7. On page 57, in the first line of note 5(o)(iii), replace “reconised” with “recognised”.

8. On page 61, other revenue on self-branded colour cosmetics should be Nil as at 31 December 2007 and third party manufacturing should be Nil as at 31 December 2008. The unallocated other income and gains should be HK$3,220,000 and HK$9,421,000 for the year ended 31 December 2008 and 2007, respectively.

9. On page 69, in the second last paragraph under note 14, replace “allocated” with “located”.

10. On page 85, the last paragraph should be read as follows:

    “At the respective balance sheet dates, if exchange rates of the functional currency of relevant group entities against Renminbi had appreciated/depreciated by 3% and all other variables were held constant, the Group’s loss would increase/decrease by approximately HK$1,703,000 (2007: HK$1,160,000) for the year. At the respective balance sheet dates, if exchange rates of the functional currency of relevant group entities against New Taiwan Dollars had appreciated/depreciated by 3% and all other variables were held constant, the Group’s loss would decrease/increase by approximately HK$685,000 (2007: HK$1,915,000) for the year. The amounts were mainly attributed to the exposure on Renminbi on prepayments, deposits and other receivables and bank borrowings and New Taiwan Dollars on trade payables of the Group at the year end.”

11. On page 87, under the last paragraph of note 31(c), replace “expect” with “expected”.