

UNAUDITED FINANCIAL STATEMENTS ANNOUNCEMENT FOR THE FIRST QUARTER ENDED 31 MARCH 2009

PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

	Three months ended 31 March		
	2009	2008	Change
	(unaudited) HK\$'000	(unaudited) HK\$'000	%
Revenue	68,693	149,476	-54.0
Cost of sales	(32,479)	(57,103)	-43.1
Gross profit	36,214	92,373	-60.8
Other operating income	254	693	-63.3
Gain on disposals of subsidiaries	46,985	-	N.M.
Distribution costs	(54,747)	(44,748)	22.3
Administrative expenses	(6,278)	(7,119)	-11.8
Impairment loss recognised in respect of:			
- property, plant and equipment	(15,763)	-	N.M.
- trade receivables	(26,233)	(836)	3037.9
Other expenses	(694)	(1,571)	-55.8
Operating (loss)/profit	(20,262)	38,792	N.M.
Finance costs	(1,995)	(1,533)	30.1
(Loss)/profit before taxation	(22,257)	37,259	N.M.
Taxation	-	-	N.M.
Loss/(profit) after taxation attributable to members of the Company	(22,257)	37,259	N.M.
Other comprehensive income	-	-	N.M.
Total comprehensive (loss)/income attributable to members of the Company	(22,257)	37,259	N.M.

The Group's (loss)/profit before taxation is arrived at after charging/(crediting):

	Three months ended 31 March		
	2009	2008	Change
	(unaudited) HK\$'000	(unaudited) HK\$'000	%
Depreciation	1,515	6,845	-77.9
Amortisation	1,235	1,190	3.8
Loss on disposal of property, plant and equipment	132	1,277	-89.7
Exchange (gain)/loss, net	(168)	398	N.M.
Interest income	(14)	(693)	-98.0

N.M.: Not meaningful

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	The Group		The Company	
	31 March 2009 (unaudited) HK\$'000	31 December 2008 (audited) HK\$'000	31 March 2009 (unaudited) HK\$'000	31 December 2008 (unaudited) HK\$'000
ASSETS				
<u>Non-current assets</u>				
Property, plant and equipment	108,194	107,510	-	-
Land use rights	157,811	159,046	-	-
	<u>266,005</u>	<u>266,556</u>	-	-
<u>Current assets</u>				
Inventories	46,554	53,822	-	-
Trade receivables	123,498	111,481	-	-
Prepayments, deposits and other receivables	74,343	93,988	-	-
Pledged time deposits	6,012	6,007	-	-
Cash and cash equivalents	6,725	64,582	12	4
	<u>257,132</u>	<u>329,880</u>	<u>12</u>	<u>4</u>
Total assets	<u>523,137</u>	<u>596,436</u>	<u>12</u>	<u>4</u>
EQUITY AND LIABILITIES				
<u>Capital and reserves</u>				
Share capital	35,639	35,639	35,639	35,639
Reserves	307,755	330,012	(184,213)	(185,905)
	<u>343,394</u>	<u>365,651</u>	<u>(148,574)</u>	<u>(150,266)</u>
<u>Current liabilities</u>				
Trade payables	709	22,025	-	-
Accruals and other payables	9,451	7,615	2,056	1,351
Bank borrowings, secured - due within one year	169,583	154,927	133,106	135,495
Financial guarantee contract	-	-	13,424	13,424
Provision for taxation	-	46,218	-	-
	<u>179,743</u>	<u>230,785</u>	<u>148,586</u>	<u>150,270</u>
Total equity and liabilities	<u>523,137</u>	<u>596,436</u>	<u>12</u>	<u>4</u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities

The Group	Secured		Unsecured	
	31 March 2009 (unaudited) HK\$'000	31 December 2008 (audited) HK\$'000	31 March 2009 (unaudited) HK\$'000	31 December 2008 (audited) HK\$'000
Amounts payable in one year or less, or on demand	169,583	154,927	-	-
Amount payable after one year	-	-	-	-

Details of any collateral

As at 31 March 2009, the Group's bank borrowings were secured by:

- i. Pledged deposits amounting to HK\$6,012,000 (31 December 2008: HK\$6,007,000);
- ii. Corporate guarantees provided by the Company and certain subsidiaries; and
- iii. Land use rights and leasehold buildings of the Group.

1(c) **A cash flow statement (for the group), together with a comparative statement or the corresponding period of the immediately preceding financial year**

<u>The Group</u>	Three months ended 31 March	
	2009 (unaudited) HK\$'000	2008 (unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before taxation	(22,257)	37,259
Adjustments for:		
Depreciation	1,515	6,845
Amortisation	1,235	1,190
Allowance for impairment of trade receivables	26,233	836
Impairment loss recognised in respect of property, plant and equipment	15,763	-
Finance costs	1,995	1,533
Gain on disposals of subsidiaries	(46,985)	-
Interest income	(14)	(693)
Loss on disposal of property, plant and equipment	132	1,277
Operating (loss)/income before working capital changes	(22,383)	48,247
Decrease in inventories	7,268	9,271
(Decrease)/increase in trade receivables	(38,250)	70,540
Decrease in other receivables	19,645	122
Decrease in trade payables	(21,316)	(31,779)
Increase/(decrease) in other payables	2,863	(13,496)
Cash (used in)/generated from operations	(52,173)	82,905
Finance costs paid	(2,384)	(1,729)
Net cash (used in)/generated from operating activities	(54,557)	81,176
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	(18,374)	(14,876)
Net cash outflow from disposals of subsidiaries	(260)	-
Proceeds from disposals of property, plant and equipment	280	-
Interest received	14	693
Net cash used in investing activities	(18,340)	(14,183)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new bank loan	17,045	-
Repayment of bank loan	(2,000)	-
Increase in pledged time deposits	(5)	(13)
Net cash generated from/(used in) financing activities	15,040	(13)
Net (decrease)/increase in cash and cash equivalents	(57,857)	66,980
Cash and cash equivalents at beginning	64,582	191,229
Cash and cash equivalents at end	6,725	258,209

On 19 January 2009, Colour Zone Limited, a wholly-owned subsidiary of the Company, disposed 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.

	HK\$'000
Bank balance	260
Other payables	(1,027)
Provision for taxation	(46,218)
Net liabilities disposed of	(46,985)
Less: Consideration received	-
Gain on disposals	46,985
Net cash outflow on disposals	(260)

1(d)(i) A statement (for the issuer and group) showing either (i) all changes or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

<u>The Group</u> (unaudited)	Issued share capital HK\$'000	Share premium account HK\$'000	Statutory reserve HK\$'000	Employee share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2008	34,236	60,395	50	6,528	6,732	480,992	588,933
Issue of new shares	1,403	100,560	-	-	-	-	101,963
Total comprehensive income for the period	-	-	-	-	-	37,259	37,259
At 31 March 2008	35,639	160,955	50	6,528	6,732	518,251	728,155
2007 final dividend paid	-	-	-	-	-	(10,271)	(10,271)
Total comprehensive income for the period	-	-	-	-	-	41,688	41,688
At 30 June 2008	35,639	160,955	50	6,528	6,732	549,668	759,572
Total comprehensive income for the period	-	-	-	-	-	61,924	61,924
At 30 September 2008	35,639	160,955	50	6,528	6,732	611,592	821,496
2008 interim dividend paid	-	-	-	-	-	(7,548)	(7,548)
Total comprehensive income for the period	-	-	-	-	20,731	(469,028)	(448,297)
At 31 December 2008	35,639	160,955	50	6,528	*27,463	135,016	365,651
Total comprehensive loss for the period	-	-	-	-	-	(22,257)	(22,257)
At 31 March 2009	35,639	*160,955	*50	*6,528	*27,463	*112,759	343,394

* These reserve accounts comprise the reserves of HK\$307,755,000 (31 December 2008: HK\$330,012,000) in the consolidated balance sheet.

- The share premium account may be applied only for the purposes specified in the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
- Employee share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.
- Exchange fluctuation reserve arises from the translation of foreign subsidiaries' assets and liabilities.
- 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.

1(d)(i) A statement (for the issuer and group) showing either (i) all changes or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year (continued)

<u>The Company</u> (unaudited)	Issued share capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Employee share option reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2008	34,236	60,395	28,655	6,528	342,368	472,182
Issue of new shares	1,403	100,560	-	-	-	101,963
Total comprehensive income for the period	-	-	-	-	36,713	36,713
At 31 March 2008	35,639	160,955	28,655	6,528	379,081	610,858
2007 final dividend paid	-	-	-	-	(10,271)	(10,271)
Total comprehensive income for the period	-	-	-	-	38,154	38,154
At 30 June 2008	35,639	160,955	28,655	6,528	406,964	638,741
Total comprehensive income for the period	-	-	-	-	38,906	38,906
At 30 September 2008	35,639	160,955	28,655	6,528	445,870	677,647
2008 interim dividend paid	-	-	-	-	(7,548)	(7,548)
Total comprehensive loss for the period	-	-	-	-	(820,365)	(820,365)
At 31 December 2008	35,639	160,955	28,655	6,528	(382,043)	(150,266)
Total comprehensive income for the period	-	-	-	-	1,692	1,692
At 31 March 2009	35,639	#160,955	#28,655	#6,528	#(380,351)	(148,574)

These reserve accounts comprise the negative reserves of HK\$184,213,000 (31 December 2008: HK\$185,905,000 negative) in the balance sheet of the Company.

a. The capital reserve balance of HK\$28,655,000 (31 December 2008: HK\$28,655,000) of the Company as at 31 March 2009 represents the excess of the then combined net asset value of the subsidiaries acquired pursuant the Group's reorganisation over the nominal value of the shares of the Company issued in exchange therefor in 2003.

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares or cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

There were no changes in the Company's share capital during the current reporting period. As at 31 March 2009, total share options outstanding amounted to 10,400,000 unissued ordinary share of HK\$0.10 each.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of immediately preceding year.

<u>The Company and the Group</u>	As at 31 March 2009 (unaudited)	As at 31 December 2008 (audited)
Total number of issued shares	356,388,108	356,388,108
Less: Treasury shares	-	-
Total	<u>356,388,108</u>	<u>356,388,108</u>

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)

The figures in this announcement have not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable. The figures in this announcement have not been audited or reviewed.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

There are a number of new or revised International Financial Reporting Standards and related interpretations ("new IFRSs") that are effective for accounting periods beginning on or after 1 January 2009. The adoption of these new IFRSs did not have any material impact on the financial information of the Group for the first quarter ended 31 March 2009. Save as aforesaid, the accounting policies and methods of computation used in the preparation of the financial information of the Group for the first quarter ended 31 March 2009 are the same as those used in the most recently audited annual financial statements of the Group for the year ended 31 December 2008.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

Please refer to paragraph 4.

6. **Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

	Three months ended 31 March		
	2009 (unaudited) HK cents	2008 (unaudited) HK cents	Change %
Loss/(earnings) per ordinary share for the period			
(i) Based on weighted average number of ordinary shares issued	(6.2)	10.7	N.M.
(ii) On a fully diluted basis	(6.2)	10.6	N.M.

Basic (loss)/earnings per share is calculated based on the (loss)/profit after taxation attributable to members of the Company divided by the weighted average number of ordinary shares in issue.

Diluted (loss)/earnings per share is calculated based on the (loss)/profit after taxation attributable to members of the Company divided by the weighted average number of ordinary shares adjusted for the effect of dilution. The number of ordinary shares is calculated based on the weighted average number of ordinary shares in issue during the reporting period plus the weighted average number of ordinary shares which would be issued on the conversion of all dilutive potential share options into ordinary shares. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares at the beginning of the period or if later, the date of the issue of the potential ordinary shares.

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

<u>The Group</u>	Three months ended 31 March	
	2009 (unaudited)	2008 (unaudited)
<i>Number of shares</i>		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	356,388,108	347,293,363
Effect of dilutive potential ordinary shares on conversion of share options granted	-	3,111,697
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	356,388,108	350,405,060

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year**

	The Group			The Company		
	As at 31 March 2009 (unaudited) HK cents	As at 31 December 2008 (unaudited) HK cents	Change %	As at 31 March 2009 (unaudited) HK cents	As at 31 December 2008 (unaudited) HK cents	Change %
Net asset value per ordinary share based on issued capital	96.4	102.6	-6.0	(41.7)	(42.2)	-1.2

The calculation of net asset value per ordinary share is based on the net assets as at 31 March 2009 of the Group of HK\$343,394,000 (31 December 2008: HK\$365,651,000) and net liabilities of the Company of HK\$148,574,000 (31 December 2008: HK\$150,266,000) divided by the number of ordinary shares in issue as at 31 March 2009 and 31 December 2008 of 356,388,108 shares.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on**

Operating results

The Group's revenue dropped by 54.0% to HK\$68.7 million for the three months ended 31 March 2009 ("Q1 2009") from HK\$149.5 million for the corresponding period of preceding year ("Q1 2008"). The Group continued to generate its revenue from two avenues: (i) the sale of its proprietary cosmetics brands – Colour Zone and CharmingLady ("Brand Business"); and (ii) the production of cosmetics products on an OEM/ODM basis for third-parties ("Manufacturing Business"). During Q1 2009, the Brand Business contributed sales of HK\$66.2 million (Q1 2008: HK\$145.9 million). The decline was mainly due to the general slowdown in economy and the tense relationship between the Group and its customers, particularly after the publicising of the receipt of statutory demand from bank creditors of the Company as disclosed in the announcement dated 12 March 2009 and the cutting of credit terms previously offered by the Group to most of its customers. Due to the financial constraint of the Group, the opening of points-of-sale retailing the Group's brands ("POS") decelerated and the closure of POS exceeded the number of new opening in Q1 2009. Accordingly, total number of POS reduced by 103 from 2,249 as at 31 December 2008 to 2,146 as at 31 March 2009, comprising 1,743 Colour Zone and 402 CharmingLady POS respectively. Revenue from the Manufacturing Business for Q1 2009 also decreased to HK\$2.5 million from HK\$3.6 million in Q1 2008.

Gross profit margin squeezed to 52.7% (Q1 2008: 61.8%) as the Group lowered the selling price of some overstock products and sold certain excessive materials below cost during Q1 2009.

During Q1 2009, a non-cash gain on disposals of subsidiaries is recognised when the Group disposed of three dormant subsidiaries with net liabilities of approximately HK\$47.0 million to a company wholly and beneficially owned by the Chairman of the Company at a nominal consideration of HK\$3 on 19 January 2009. Details of such disposals of subsidiaries have been disclosed in a separate announcement of the Company dated 21 January 2009.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on (continued)

Advertising and promotion ("A&P") expenditure remained the major component of the Group's distribution costs for Q1 2009 and amounted to HK\$44.8 million (Q1 2008: HK\$25.5 million). Despite the decline in sales, most of A&P costs were prepaid or committed in 2008 and the scheduled media exposure and events had carried on during Q1 2009, therefore A&P expenses, as percentage of revenue from the Brand Business, increased to 67.3% from 18.0% Q1 2008. In addition, less aggressive A&P campaigns were organised in Q1 2008 before the launch of new image for CharmingLady products in the second quarter of 2008 and the appointment of new spokesperson for Colour Zone in the third quarter of 2008. Depreciation included in distribution costs decreased to HK\$0.2 million (Q1 2008: HK\$8.7 million) when the Group made full provision for impairment loss on the product display units held as at 31 December 2008 and subsequently purchased based on the management estimate of cash flow projection from these product display units and therefore the depreciation for product display units was nil in Q1 2009. Marketing and sales staff costs increased to HK\$3.3 million (Q1 2008: HK\$2.6 million) attributable to the lay-off compensation paid for cutting headcount in Q1 2009. Most of other distribution costs such as logistics charges and travelling expenses declined in line with sales.

Administrative expenses dropped to HK\$6.3 million (Q1 2008: HK\$7.1 million) after the Group implemented a series of cost saving measures during Q1 2009.

Impairment loss recognised in respect of property, plant and equipment represented the provision for impairment loss on the entire cost of product display units purchased in Q1 2009 for the POS opening and refurbishment. In addition, the Group recognised an impairment loss on trade receivables amounted to HK\$26.2 million (Q1 2008: HK\$0.8 million) for the trade receivables which are past due and remained outstanding at the date of these financial statements.

Other expenses for Q1 2009 decreased to HK\$0.7 (Q1 2008: HK\$1.6 million) million when the Group did not incur any depreciation and amortisation of unutilised portion of the production facility (Q1 2008: HK\$1.0 million).

Finance costs for Q1 2009 rose to HK\$2.0 million (Q1 2008: HK\$1.5 million) due to the increase in average amount of bank borrowings.

No tax expenses were incurred as the Group did not generate any taxable profits during Q1 2009.

In light of the above, the Group recorded a net loss HK\$22.3 million for Q1 2009 from a net profit of HK\$37.3 million for Q1 2008.

Financial position

The Group's working capital flow started to deteriorate in the fourth quarter of 2008 subsequent to the global financial crisis which resulted in slower settlements from customers and forced repayments to suppliers and contractors. The financial position of the Group did not improve and even worsened further in Q1 2009, particularly after the publicising of the Group's financial difficulties. To strengthen its cash flow, the Group began to shorten or cut the credit terms offered to most of its customers since March 2009 while most of its supplies changed to supply goods on a down-payment or cash-on-delivery basis.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

No forecast or prospect statement have been issued for the period under review.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

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.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect

Not applicable.

PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT (This part is not applicable to Q1, Q2, Q3 or Half Year Results)

- 13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year**

Not applicable.

- 14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments**

Not applicable.

- 15. A breakdown of sales**

Not applicable.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai
Chairman
19 June 2009



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**CONFIRMATION BY THE BOARD
PURSUANT TO RULE 705(4) OF THE LISTING MANUAL**

On behalf of the Board of Directors of the Company, we the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial statements of the first quarter ended 31 March 2009 to be false or misleading.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai
Chairman

Wong Hon Kin
Director

19 June 2009