
**MATERIAL DIFFERENCES BETWEEN THE UNAUDITED AND AUDITED FINANCIAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

The Board of Directors (the "Board") of Beauty China Holdings Limited (the "Company" and together with its subsidiaries, collectively the "Group") refers to the announced unaudited results for the year ended 31 December 2008 ("FY2008") dated 28 February 2009 (the "Unaudited Results").

The Board wishes to announce pursuant to Rule 704(6) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the following material differences between the Unaudited Results and the audited financial statements:

1. Increase in allowance for impairment of trade receivables by HK\$174,838,000

The Group's accounting policy on trade receivables requires the Group to assess debtors' recoverability by taking into account objective evidence, including payment history, financial healthiness and willingness of repayment, etc. Where recoverability from a debtor is in doubt, a provision against the doubtful debtor is recognised at the difference between the trade debtor balance and the present value of estimated amount recoverable. In accordance with this accounting policy, an allowance for impairment of trade receivables amounted to HK\$42,419,000 was recognised in the Unaudited Results.

The Group experiences delay in recovery of trade receivables since the downturn in economy in Mainland China. The progress in collections from customers slows down further 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. The Board does not believe that recovery of trade receivables will improve significantly in the ordinary course of the Group's business unless there is a significant pickup in the economy and consumption in China and the Group can successfully resolve its current financial difficulties.

In such circumstances, the Group performed a further evaluation on the recoverability from trade debtors and made further provisions against those trade receivable balances, which are past due at the date of issue of the audited financial statements, amounted to HK\$174,838,000.

2. Increase in impairment loss on property, plant and equipment by HK\$165,470,000 and land use rights by HK\$45,500,000

Impairment loss on property, plant and equipment and land use rights comprised of the followings:

	Audited HK\$'000	Unaudited HK\$'000	Difference HK\$'000
Construction in progress	26,480	-	26,480
Plant and machinery	12,838	-	12,838
Moulds	23,302	-	23,302
Furniture, fixtures and equipment	102,850	-	102,850
	<u>175,470</u>	<u>-</u>	<u>165,470</u>
Land use rights	<u>62,182</u>	<u>16,682</u>	<u>45,500</u>

At each balance sheet date, the Company reviews, by taking into account internal and external sources of information, all assets to determine whether there exists any indication of impairment of assets. Impairment loss is recognised on an asset whenever the carrying amount of that asset exceeds its recoverable amount. Given the downturn in economy, severe tension between the Group and its customers, suspension of the expansion plans and decrease in utilisation of the Group's manufacturing facilities, the Company is of the view that indications of impairment of the

Group assets exist.

Recoverable amounts for the Group's construction-in-progress, plant and machinery and moulds were estimated based on the higher of net selling prices and value-in-use. Net selling price 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. Based on the estimate of cash flow projection from the Group's construction-in-progress, plant and machinery and moulds, additional impairment losses of HK\$26,480,000, HK\$12,838,000, HK\$23,302,000 and HK\$102,850,000 on construction-in-progress, plant and machinery, moulds and furniture, fixtures and equipment are recognised respectively.

In assessing the recoverable amounts of leasehold buildings and land use rights, the Group appointed an independent firm of professional valuers to perform a valuation on the Group's leasehold buildings and land use rights. With reference to the latest results of the independent valuation, an additional impairment loss of HK\$45,500,000 on land use rights is recognised.

3. Increase in goodwill impairment by HK\$20,414,000

Goodwill of HK\$20,414,000 arose from acquisition of the Group's manufacturing facilities in 2007, represented 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 tested annually as to whether the goodwill is impaired, where its carrying amount is in excess of the recoverable amount.

With the significant drop in orders for the Group's manufacturing business, the Group considers that an indication of impairment on the manufacturing facilities exists and therefore appointed an independent firm of professional valuers to perform the valuation of the Group's manufacturing facilities. With reference to the latest results of the independent valuation, an impairment loss of HK\$20,414,000 on goodwill is recognised.

4. Increase in inventory provision by HK\$42,672,000

With the continuous deterioration of relationship with the Group's distributors and the contraction in the Group's retail network as disclosed in the Company's announcement dated 13 April 2009, together with the general slowdown in consumption in China, there has been an adverse impact on the demand of the Group's products. Given the significant change in the business environment, the Group reviewed the inventory level at balance sheet date and identified certain inventories where quantities held at balance sheet date are in excess of estimated sales quantities. Inventories in excess are written down to the lower of cost and net realisable value, being the estimated selling price less estimated costs necessary to make the sale.

5. Reversal of bonus provision of HK\$5,697,000

In light of the above adjustments, the Company recorded a net loss of HK\$328,157,000 for FY2008. Accordingly, the Company reversed the bonus provision for executive directors of the Company which is calculated based on audited profit after taxation attributable to members of the Company for FY2008. There is no performance bonus paid or payable to any directors of the Company for the Group's FY2008 results.

6. Reclassification of non-current bank loan of HK\$74,129,000 as current

The bank creditors of the Company demanded repayment of the entire principal and interest outstanding amounting of approximately HK\$134 million by 27 March 2009, of which HK\$74,129,000 was originally due one year after 31 December 2008. Accordingly, the non-current portion of the bank loan is reclassified as current.

Effects of the material differences to the consolidated financial statements for FY2008 are summarised as follows:

	Audited HK\$'000	Unaudited HK\$'000	Difference HK\$'000
<u>Consolidated Income Statement</u>			
Distribution costs	272,876	274,734	(1,858)
Administrative expenses	24,072	27,911	(3,839)
Allowance for impairment of trade receivables	217,257	42,419	174,838
Inventory provision and written-off	46,658	3,986	42,672
Impairment loss on goodwill	20,414	-	20,414
Impairment loss on land use rights	62,182	16,682	45,500
Impairment loss on property, plant and equipment	165,470	-	<u>165,470</u>
Effects to loss after taxation attributable to members of the Company			<u><u>443,197</u></u>
<u>Consolidated Balance Sheet</u>			
Property, plant and equipment	107,510	272,980	(165,470)
Land use rights	159,046	204,546	(45,500)
Goodwill	-	20,414	(20,414)
Inventories	53,822	96,494	(42,672)
Trade receivables	111,481	286,319	(174,838)
Accruals and other payables	7,615	12,936	5,321
Derivative financial instruments	-	376	376
Bank loans, secured – due within one year	154,927	80,798	74,129
Bank loan, secured – due after one year	-	74,129	<u>(74,129)</u>
Effects to net assets			<u><u>(443,197)</u></u>
	HK cents	HK cents	HK cents
<u>(Loss)/earnings per share</u>			
Basic	(92.7)	32.5	(125.2)
Diluted	(92.7)	32.5	(125.2)
<u>Net asset value per ordinary share based on issued capital</u>	102.6	227.0	(124.4)

The audited consolidated income statement and consolidated balance sheet are attached for information.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai
Chairman
19 June 2009

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008	Notes	2008 HK\$'000	2007 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.