



BEAUTY CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Company Registration No. 118384)

**QUALIFIED OPINION BY JOINT AUDITORS ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

The Board of Directors (the "Board") of Beauty China Holdings Limited (the "Company") wishes to announce that the Company's joint auditors have issued a qualified opinion on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2008. A copy of which is attached for the information of the shareholders' of the Company.

ON BEHALF OF THE DIRECTORS

Wong Hon Wai
Chairman
19 June 2009



Chartered Accountants
Certified Public Accountants

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The Landmark
11 Pedder Street
Central
Hong Kong



Certified Public Accountants
47 Hill Street, #05-01
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**JOINT INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
BEAUTY CHINA HOLDINGS LIMITED**

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(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.

**JOINT INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
BEAUTY CHINA HOLDINGS LIMITED (CONTINUED)** _____ **37**
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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