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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sau San Tong Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee. This circular appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

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## SAU SAN TONG HOLDINGS LIMITED

修身堂控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8200)

- (1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;  
(2) PROPOSED OPEN OFFER ON THE BASIS OF  
ONE OFFER SHARE FOR EVERY ONE SHARE HELD ON  
THE RECORD DATE AT HK\$0.10 PER OFFER SHARE;  
(3) CLOSURE OF REGISTER OF MEMBERS;  
AND  
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Financial adviser to the Company**



**Underwriter of the Open Offer**



**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders**



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A letter from the Board is set out on pages 13 to 45 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 46 to 47 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 48 to 66 of this circular.

A notice convening the EGM to be held at 4th Floor, Sands Building, 17 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong at 11:00 a.m. on Tuesday, 18 August 2015 is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is enclosed.

Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire and in such event the instrument appointing a proxy shall be deemed to be revoked.

The Open Offer is subject to the satisfaction of certain conditions as described under the section headed "Conditions of the Open Offer". In particular, it is subject to the Underwriter not terminating the Underwriting Agreement (see the section headed "Termination of the Underwriting Agreement" herein) on or before the Latest Time for Termination. Accordingly, the Open Offer may or may not become unconditional and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares up to the date when the conditions of the Open Offer are fulfilled.

\* for identification purpose only

31 July 2015

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## CHARACTERISTIC OF GEM

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following terms shall have the following meanings:*

“acting in concert”	has the meaning as ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 7 July 2015 in relation to, among other things, the proposed Increase in Authorised Share Capital and the proposed Open Offer
“Application Form”	the application form to be issued to the Qualifying Shareholders in respect of their assured entitlements under the Open Offer
“associate”	has the meaning as ascribed thereto under the GEM Listing Rules
“Biochem Investments”	Biochem Investments Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is wholly owned by Dr. Cheung
“Board”	the board of Directors
“Business Day”	a day (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“close associate”	has the meaning as ascribed thereto under the GEM Listing Rules

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## DEFINITIONS

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“Company”	Sau San Tong Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the GEM
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time
“connected person”	has the meaning as ascribed thereto under the GEM Listing Rules
“controlling shareholder”	has the meaning as ascribed thereto under the GEM Listing Rules
“Convertible Note”	the 2% convertible note due 2016 issued by the Company to Dr. Cheung on 20 December 2013, the outstanding principal amount of which is HK\$20,000,000 and is convertible into Shares at a prevailing conversion price of HK\$0.137 per conversion share (subject to adjustment(s)) as at the Latest Practicable Date. The initial conversion price of the Convertible Note was (i) adjusted from HK\$0.33 to HK\$0.141 per conversion share as a result of the Company’s rights issue announced on 10 July 2014 and 25 September 2014, and (ii) further adjusted from HK\$0.141 to HK\$0.137 per conversion share as a result of the Company’s placing of shares under specific mandate and general mandate announced on 17 December 2014
“core connected person”	has the meaning as ascribed thereto under the GEM Listing Rules
“Director(s)”	director(s) of the Company
“Director Options”	Outstanding Options held by Mr. Cheung entitling him to subscribe for an aggregate of 4,666,666 Shares as at the Latest Practicable Date
“Dr. Cheung”	Dr. Cheung Yuk Shan, Shirley, the chairman of the Board and an executive Director

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## DEFINITIONS

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“Dr. Cheung’s Undertaking”	the irrevocable and unconditional undertaking given by Dr. Cheung in favour of the Company and the Underwriter on 7 July 2015 pursuant to which Dr. Cheung has undertaken, <i>inter alia</i> , (1) not to transfer or otherwise dispose of any interest in the Convertible Note; and (2) not to exercise the conversion rights attached to the Convertible Note from the date of the Dr. Cheung’s Undertaking up to and including the Record Date
“EGM”	the extraordinary general meeting of the Company to be held at 11:00 a.m. on Tuesday, 18 August 2015 (or any adjournment thereof) for the Shareholders or (as the case may be) the Independent Shareholders to consider and, if thought fit, approve, among other things, the Increase in Authorised Share Capital, the Open Offer and the transactions respectively contemplated thereunder
“Excluded Shareholder(s)”	Overseas Shareholder(s), to whom the Directors, based on legal advice(s) provided by the legal adviser(s) to the Company, consider it necessary or expedient not to offer the Offer Shares on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer
“Group”	the Company and its subsidiaries from time to time
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Increase in Authorised Share Capital”	the proposed increase in the authorised share capital of the Company from HK\$20,000,000 divided into 2,000,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of 8,000,000,000 additional Shares
“Independent Board Committee”	a committee of the Board comprising all independent non-executive Directors established to advise the Independent Shareholders in respect of the Open Offer
“Independent Shareholder(s)”	any Shareholder(s) who are not required by the GEM Listing Rules to abstain from the voting in favour of the relevant resolution approving the Open Offer at the EGM
“Last Trading Day”	7 July 2015, being the date of the Underwriting Agreement
“Latest Practicable Date”	29 July 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Latest Acceptance Date”	Tuesday, 15 September 2015 or such other day as may be agreed between the Company and the Underwriter, being the latest date for the application for, and payment for, the Offer Shares
“Latest Time for Acceptance”	4:00 p.m. on Tuesday, 15 September 2015 or such other time or date as may be agreed between the Company and the Underwriter, being the latest time for application for, and payment for, the Offer Shares as described in the Prospectus Documents
“Latest Time for Termination”	4:00 p.m. on Friday, 18 September 2015, being the third Business Day after the Latest Time for Acceptance (or such other time or date as the Underwriter and the Company may agree)
“Mr. Cheung”	Mr. Cheung Ka Heng, Frankie, an executive Director

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## DEFINITIONS

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“Mr. Cheung’s Undertaking”	the irrevocable and unconditional undertaking given by Mr. Cheung in favour of the Company and the Underwriter on 7 July 2015 pursuant to which Mr. Cheung has undertaken not to exercise any of the subscription rights attached to the Director Options held by him as from the date of Mr. Cheung’s Undertaking up to and including the Record Date
“Offer Share(s)”	Share(s) to be allotted and issued under the Open Offer, being not less than 1,821,135,954 Offer Shares and not more than 1,850,955,954 Offer Shares proposed to be offered to the Qualifying Shareholders pursuant to the Open Offer on the basis of one (1) Offer Share for every one (1) Share held on the Record Date
“Open Offer”	the proposed issue of one (1) Offer Share for every one (1) Share in issue and held on the Record Date at the Subscription Price to the Qualifying Shareholders on the terms and subject to the conditions to be set out in the Prospectus Documents
“Outstanding Options”	share options granted by the Company under the Share Option Scheme which entitle the holders thereof to subscribe for up to an aggregate 34,486,666 Shares as at the Latest Practicable Date
“Overseas Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date with registered address(es) outside Hong Kong
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus to be issued by the Company and expected to be despatched to the Shareholders on the Prospectus Posting Date containing details of the Open Offer in such form as may be agreed between the Company and the Underwriter
“Prospectus Documents”	the Prospectus and the Application Forms



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## DEFINITIONS

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“Prospectus Posting Date”	Monday, 31 August 2015 or such other date as the Underwriter may agree in writing with the Company, being the date of despatch of the Prospectus Documents to the Qualifying Shareholders
“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of the members of the Company at the close of business on the Record Date, other than the Excluded Shareholder(s)
“Record Date”	Friday, 28 August 2015 (or such other date as the Underwriter may agree in writing with the Company), as the date by reference to which entitlements to the Open Offer will be determined
“Registrar”	the branch share registrar and transfer office of the Company in Hong Kong, being Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong)
“Share(s)”	ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Shareholders on 4 November 2003
“Shareholder(s)”	the holder(s) of the issued Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$0.10 per Offer Share
“substantial shareholder”	has the meaning as ascribed thereto under the GEM Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

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## DEFINITIONS

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“Underwriter”	CNI Securities Group Limited (中國北方證券集團有限公司), a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO
“Underwriting Agreement”	the underwriting agreement dated 7 July 2015 (as supplemented on 23 July 2015) entered into between the Company and the Underwriter in relation to the underwriting arrangement in respect of the Open Offer
“Underwritten Shares”	the Offer Shares (being not less than 1,821,135,954 Offer Shares (assuming that there is no change to the issued share capital of the Company on or before the Record Date) and not more than 1,850,955,954 Offer Shares (assuming that there is no change to the issued share capital of the Company other than as a result of the issue of Shares upon exercise of the Outstanding Options (other than the Director Options) in full on or before the Record Date))
“Untaken Shares”	the Underwritten Shares not taken up by the Qualifying Shareholders
“%”	per cent.

*Note:* Certain amounts and percentage figures included in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

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## EXPECTED TIMETABLE

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The expected timetable for the Open Offer is set out below:

<b>Event</b>	<b>2015</b>
Date of despatch of the Circular with the notice and form of proxy of the EGM . . . . .	Friday, 31 July
Latest date and time for lodging transfers of Shares in order to be qualified for attendance and voting at the EGM . . . . .	4:00 p.m. on Tuesday, 11 August
Closure of register of members of the Company for transfer of Shares to determine the right to attend and vote at the EGM (both dates inclusive) . . . . .	Wednesday, 12 August to Tuesday, 18 August
Latest date and time for return of proxy form of the EGM (not less than 48 hours prior to time of the EGM) . . . . .	11:00 a.m. on Sunday, 16 August
Record date for attendance and voting at the EGM. . . . .	Tuesday, 18 August
Date and time of the EGM . . . . .	11:00 a.m. on Tuesday, 18 August
Announcement of results of the EGM. . . . .	Tuesday, 18 August
Effective date of the Increase in Authorised Share Capital . . . . .	Tuesday, 18 August
Register of members of the Company re-opens. . . . .	Wednesday, 19 August
Last day of dealings in Shares on a cum-entitlement basis of the Open Offer . . . . .	Wednesday, 19 August
First day of dealings in Shares on an ex-entitlement basis of the Open Offer . . . . .	Thursday, 20 August
Latest date and time for lodging transfers of Shares in order to be qualified for the Open Offer . . . . .	4:00 p.m. on Friday, 21 August

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## EXPECTED TIMETABLE

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Closure of register of members of the Company for transfer of Shares to determine entitlements under the Open Offer (both dates inclusive) . . . . .	Monday, 24 August to Friday, 28 August
Record Date for the Open Offer . . . . .	Friday, 28 August
Register of members of the Company re-opens. . . . .	Monday, 31 August
Despatch of the Prospectus Documents. . . . .	Monday, 31 August
Latest Time for Acceptance . . . . .	4:00 p.m. on Tuesday, 15 September
Latest Time for Termination. . . . .	4:00 p.m. on Friday, 18 September
Announcement of the allotment results of the Open Offer . . . . .	Thursday, 24 September
Despatch of share certificates for the Offer Shares. . . . .	Friday, 25 September
Despatch of refund cheques if the Open Offer is terminated. . . . .	Friday, 25 September
Commencement of dealings in the Offer Shares . . . . .	9:00 a.m. on Tuesday, 29 September

*Note:*

All times and dates in this circular refer to Hong Kong local times and dates. Shareholders should note that the dates and deadlines specified in this circular for events in the timetable for (or otherwise in relation to) the Open Offer are indicative only and may be extended or varied by agreement between the Company and the Underwriter.

In the event that any special circumstances arise, the Board may extend, or make adjustment to, the timetable if it considers appropriate. Any extension or adjustment to the expected timetable will be published or notified to the Shareholders and the Stock Exchange as and when appropriate.

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## EXPECTED TIMETABLE

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### **Effect of bad weather on the Latest Time for Acceptance**

The Latest Time for Acceptance will not take place at 4:00 p.m. on Tuesday, 15 September 2015 if there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date, and will be extended to 5:00 p.m. on the same day instead;
  
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date, and will be rescheduled to 4:00 p.m. on the next business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected Timetable” in this circular may be affected. Announcement(s) will be made by the Company on any change to the expected timetable, as and when appropriate.

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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The Underwriter may terminate the Underwriting Agreement by notice in writing given to the Company at any time prior to the Latest Time for Termination, if:

- (1) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
  - (a) the introduction of any new regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position of the Group as a whole or is materially adverse in the context of the Open Offer; or
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature (whether or not ejusdem generic with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter, materially and adversely affect the business or the financial or trading position of the Group as a whole; or
  - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
  - (d) the imposition of any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise; or
  - (e) any suspension in the trading of the Shares on the Stock Exchange for a period or more than 20 consecutive Business Days after the date of the Underwriting Agreement, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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- (2) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions which includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) the Prospectus in connection with the Open Offer when published containing information (either as to the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date of the Underwriting Agreement been publicly announced or published by the Company and which may in the reasonable opinion of the Underwriter be material to the Group as a whole and likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to apply for its assured entitlements of Offer Shares under the Open Offer.

The Underwriter may also rescind the Underwriting Agreement by notice in writing to the Company at any time prior to the Latest Time for Termination, if prior to the Latest Time for Termination:

- (1) any material breach of any of the warranties or undertakings of the Company contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any event occurring or matter arising on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination, which if it had occurred or arisen before the date of the Underwriting Agreement would have rendered any of the representations, warranties and undertakings given by the Company under the Underwriting Agreement untrue or incorrect in any material respect, comes to the knowledge of the Underwriter.

In the event that the Underwriter terminates or rescind the Underwriting Agreement prior to the Latest Time for Termination, all obligations of each of the parties to the Underwriting Agreement (save for the obligation of the Company to pay legal fees and other reasonable out of pocket expenses of the Underwriter in respect of the Open Offer subject to a cap of HK\$10,000 and those provisions in the Underwriting Agreement in relation to certain miscellaneous matters) shall cease and no party shall have any claim against any other party in respect of any matter arising out of or in connection with the Underwriting Agreement except for, among others, any antecedent breach of any obligation under the Underwriting Agreement.

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## LETTER FROM THE BOARD

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### SAU SAN TONG HOLDINGS LIMITED

修身堂控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8200)

*Executive Directors:*

Dr. Cheung Yuk Shan, Shirley

Mr. Cheung Ka Heng, Frankie

Mr. Mui Wai Sum

*Registered Office:*

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

*Independent non-executive Directors:*

Mr. Hong Po Kui, Martin

Mr. Li Kuo Hsing

Ms. Hui Yat Lam

Ms. Chiu Kam Hing, Kathy

*Head office and principal*

*place of business:*

4th Floor, Sands Building

17 Hankow Road

Tsim Sha Tsui

Kowloon, Hong Kong

31 July 2015

*To the Shareholders*

Dear Sir or Madam,

- (1) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;  
(2) PROPOSED OPEN OFFER ON THE BASIS OF  
ONE OFFER SHARE FOR EVERY ONE SHARE HELD ON  
THE RECORD DATE AT HK\$0.10 PER OFFER SHARE;  
AND  
(3) CLOSURE OF REGISTER OF MEMBERS**

#### INTRODUCTION

Reference is made to the Announcement in relation to the proposed Increase in Authorised Share Capital and the Open Offer.

\* for identification purpose only



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## LETTER FROM THE BOARD

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The purpose of this circular is to provide the Shareholders with (i) further details of the proposed Increase in Authorised Share Capital and the Open Offer; (ii) a letter from the Independent Board Committee to the Independent Shareholders in respect of the Open Offer; (iii) a letter from Gram Capital to the Independent Board Committee and the Independent Shareholders on the Open Offer; and (iv) the notice of the EGM.

### PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$20,000,000 divided into 2,000,000,000 Shares, of which 1,821,135,954 Shares had been allotted and issued as fully paid or credited as fully paid.

In order to facilitate the proposed Open Offer, to accommodate the future expansion and growth of the Group and to provide the Company with greater flexibility for future expansion in the share capital of the Company, the Directors propose that the authorised share capital of the Company will be increased from HK\$20,000,000 divided into 2,000,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of 8,000,000,000 additional Shares, which will, upon issue and being fully paid, rank *pari passu* in all respects with the Shares in issue.

The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

The Board is of the view that the Increase in Authorised Share Capital will provide flexibility to the Company for future expansion in the share capital of the Company, and is therefore in the interests of the Company and the Shareholders taken as a whole.

As at the Latest Practicable Date, the Board had no present intention to issue any part of the proposed increased authorised share capital of the Company other than the issue of the Shares upon (i) the exercise of the options granted and which may be granted under the Share Option Scheme; (ii) the exercise of the conversion rights attached to the Convertible Note; and (iii) the proposed issue of the Offer Shares (subject to, among other matters, the approval of the Independent Shareholders at the EGM). Further announcement(s) will be made by the Company in accordance with the GEM Listing Rules if it proposes to issue any further Shares in the future.

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## LETTER FROM THE BOARD

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### PROPOSED OPEN OFFER

#### Issue statistics

Basis of the Open Offer: One (1) Offer Share for every one (1) Share held on the Record Date

Subscription Price: HK\$0.10 per Offer Share

Number of Shares in issue as at the Latest Practicable Date: 1,821,135,954 Shares

Number of Offer Shares: Not less than 1,821,135,954 Offer Shares <sup>(Note 1)</sup> and not more than 1,850,955,954 Offer Shares <sup>(Note 2)</sup>

The aggregate nominal value of the Offer Shares will be not less than HK\$18,211,359.54 <sup>(Note 1)</sup> and not more than HK\$18,509,559.54 <sup>(Note 2)</sup>

Enlarged issued share capital of the Company immediately upon completion of the Open Offer: Not less than HK\$36,422,719.08 comprising 3,642,271,908 Shares <sup>(Note 1)</sup> and not more than HK\$37,019,119.08 comprising 3,701,911,908 Shares <sup>(Note 2)</sup>

Underwriter: CNI Securities Group Limited (中國北方證券集團有限公司)

Funds proposed to be raised before expenses: Not less than approximately HK\$182.1 million <sup>(Note 1)</sup> and not more than approximately HK\$185.1 million <sup>(Note 2)</sup>

#### Notes:

- (1) Calculated and based on the assumption that there is no change to the issued share capital of the Company from the Latest Practicable Date up to and including the Record Date.
- (2) Calculated and based on the assumption that there is no change to the issued share capital of the Company other than as a result of the issue of Shares upon exercise of the Outstanding Options (other than the Director Options) in full from the Latest Practicable Date up to and including the Record Date.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date,

- (i) there were Outstanding Options which entitled the holders thereof to subscribe for an aggregate of 34,486,666 Shares, of which Outstanding Options with subscription rights attached thereto in respect of 4,666,666 Shares were held by Mr. Cheung. Pursuant to Mr. Cheung's Undertaking, Mr. Cheung has irrevocably and unconditionally undertaken to the Company and the Underwriter that he will not exercise any of the subscription rights attached to the Director Options from the date thereof up to and including the Record Date. Assuming the subscription rights attached to the Outstanding Options (other than the Director Options) are exercised in full on or before the Record Date, a maximum number of 1,850,955,954 Offer Shares will be issued (i.e. with 29,820,000 additional Offer Shares); and
- (ii) the Company had in issue the Convertible Note with the outstanding principal amount of HK\$20,000,000 which is convertible into 145,985,401 Shares at the prevailing conversion price. Pursuant to the Dr. Cheung's Undertaking, Dr. Cheung has irrevocably and unconditionally undertaken to the Company and the Underwriter that she will not exercise any of the conversion rights attached to the Convertible Note from the date thereof up to and including the Record Date.

As at the Latest Practicable Date, the Board had not received any information or other undertakings from any Shareholders of their intention to take up or not to take up the securities of the Company to be offered to them under the Open Offer.

Save for the Outstanding Options and the Convertible Note, the Company had no other derivatives, outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into any Shares as at the Latest Practicable Date.

The Open Offer is fully underwritten by the Underwriter who shall ensure that the Company will maintain the minimum public float requirement in compliance with Rule 11.23(7) of the GEM Listing Rules when the Underwriter is called upon to subscribe for or procure subscribers of the Underwritten Shares.

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## LETTER FROM THE BOARD

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### **The Offer Shares**

Assuming that there is no change to the issued share capital of the Company from the Latest Practicable Date up to and including the Record Date, a total number of 1,821,135,954 Offer Shares will be allotted and issued upon completion of the Open Offer, representing:

- (i) 100.00% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) 50.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Offer Shares.

Assuming that there is no change to the issued share capital of the Company other than as a result of the issue of Shares upon exercise of the Outstanding Options (other than the Director Options) in full from the Latest Practicable Date up to and including the Record Date, not more than 1,850,955,954 Offer Shares will be allotted and issued upon completion of the Open Offer, such maximum number of Offer Shares represents:

- (i) approximately 101.64% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) 50.00% of the issued share capital of the Company as enlarged by the issue of the Offer Shares and the issue of Shares upon exercise of the Outstanding Options (other than the Director Options) in full.

### **Subscription Price**

The Subscription Price of HK\$0.10 per Offer Share will be payable in full upon a Qualifying Shareholder accepting his/her/its allotment under the Open Offer. The Subscription Price represents:

- (a) a discount of approximately 12.28% to the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 31.32% to the average closing price of HK\$0.1456 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

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## LETTER FROM THE BOARD

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- (c) a discount of approximately 40.41% to the average closing price of HK\$0.1678 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 6.54% to the theoretical ex-entitlement price of HK\$0.107 per Share, based on the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (e) a discount of approximately 2.91% to the closing price of HK\$0.103 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the market price of the Shares under the prevailing market conditions, thin liquidity of the Shares, historical financial performance and financial position of the Group.

Apart from the aforesaid, in coming up with the current subscription ratio for the Open Offer and the Subscription Price, the Company has also considered the following factors:

- (i) the funding requirements of the Company having regard to the need for setting a Subscription Price at a level acceptable to the Underwriter and all of the Qualifying Shareholders;
- (ii) during the negotiation of the Underwriting Agreement, it has been indicated to the Company that a Subscription Price at a discount to the historical trading prices of the Shares is necessary to induce the Underwriter to provide underwriting services for the Open Offer, which is an essential part of the Open Offer;
- (iii) in view of the uncertainties in the financial market in Hong Kong stemming from the volatile market sentiment, capital flow, trend of interest rate, volatility in money supply in different major economies and different economic decisions made by different countries, the Directors (excluding the independent non-executive Directors who will form their views after considering the advice of Gram Capital) consider it will be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Open Offer if the Subscription Price was not set at a discount to the historical trading prices of the Shares;

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## LETTER FROM THE BOARD

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- (iv) a discount to the historical trading prices of the Shares is necessary to encourage the Qualifying Shareholders (in the absence of an excess application arrangement) to participate in the Open Offer and, accordingly, maintain their pro-rata shareholding in the Company;
- (v) the inherent dilutive nature of an open offer in general if the Qualifying Shareholders do not take up their entitlements under the Open Offer in full; and
- (vi) the Open Offer will be subject to Independent Shareholders' approval, which means that the Independent Shareholders will have a right to disapprove the Open Offer.

Based on the foregoing, the Directors (including the independent non-executive Directors) consider that the terms of the Open Offer (including the subscription ratio and the Subscription Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Conditions of the Open Offer**

The Open Offer is conditional upon the fulfillment of the following conditions:

- (i) the Increase in Authorised Share Capital becoming effective by the Record Date;
- (ii) the passing by the Independent Shareholders at the EGM of an ordinary resolution to approve the Open Offer and the transactions contemplated under the Underwriting Agreement by no later than the Prospectus Posting Date;
- (iii) the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, all the Offer Shares (in their fully-paid forms) by no later than the Prospectus Posting Date and the Stock Exchange not having withdrawn or revoked such grant of listing and permission on or before the Latest Time for Termination;
- (iv) the filing and registration of all documents relating to the Open Offer, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance by no later than the Prospectus Posting Date;
- (v) the posting of the Prospectus Documents to the Qualifying Shareholders by the Prospectus Posting Date;

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## LETTER FROM THE BOARD

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- (vi) the delivery of the duly executed Dr. Cheung's Undertaking and Mr. Cheung's Undertaking to the Company and the Underwriter on or before the date of the Underwriting Agreement;
- (vii) compliance with and performance of all undertakings and obligations of the signatory of each of Dr. Cheung's Undertaking and Mr. Cheung's Undertaking by the Latest Time for Acceptance; and
- (viii) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination.

None of the above conditions is capable of being waived by the Company or the Underwriter.

If the above conditions are not fulfilled by the respective date set out therein (or such other time and/or date(s) as the Underwriter may agree with the Company in writing), the Underwriting Agreement shall terminate and (save for, among others, any rights or obligations which may accrue under the Underwriting Agreement prior to such termination) no party to the Underwriting Agreement will have any claim against any other party for costs, damages, compensation or otherwise, and the Open Offer will not proceed.

As at the Latest Practicable Date, other than condition (vi), none of the above conditions had been fulfilled.

### **Status of the Offer Shares**

The Offer Shares, when allotted, issued and fully-paid, will rank *pari passu* with the Shares then in issue in all respects. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid with a record date which falls on or after the date of allotment and issue of the Offer Shares. Dealings in the Offer Shares, which are registered in the branch register of members of the Company in Hong Kong, will be subject to payment of stamp duty and other applicable fees and charges in Hong Kong.

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## LETTER FROM THE BOARD

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### **Qualifying Shareholders**

The Open Offer will only be available to the Qualifying Shareholders. The Company will send the Prospectus Documents to the Qualifying Shareholders and the Prospectus, for information only, to the Excluded Shareholders.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and must be a Qualifying Shareholder.

In order to be registered as a member of the Company at the close of business on the Record Date, investors must lodge any transfers of the Shares (together with the relevant share certificates) with the Registrar for registration no later than 4:00 p.m. on Friday, 21 August 2015.

### **Closure of register of members**

To determine the entitlements to the Open Offer, the Company's register of members will be closed from Monday, 24 August 2015 to Friday, 28 August 2015 (both dates inclusive). No transfer of Shares will be registered during this period.

### **Rights of Overseas Shareholders**

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders on the Record Date, if any, may not be eligible to take part in the Open Offer as explained below.

In compliance with Rule 17.41 of the GEM Listing Rules, the Company will make enquiries regarding the feasibility of extending the Open Offer to the Overseas Shareholders (if any). If, based on legal advice, the Directors consider that it is necessary or expedient not to offer the Offer Shares to the Overseas Shareholders (if any) on account either of the legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory body or stock exchange in those places, the Open Offer will not be available to such Overseas Shareholders. Further information in this connection will be set out in the Prospectus containing, among other things, details of the Open Offer, to be despatched to the Qualifying Shareholders on the Prospectus Posting Date. The Company will send copies of the Prospectus (without the Application Form) to the Excluded Shareholders (if any) for their information only.



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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, there was no Overseas Shareholder whose address as shown on the register of members of the Company is outside Hong Kong. The Company will continue to ascertain whether there is any Overseas Shareholders on the Record Date and will, if necessary, make further enquiries regarding the feasibility of extending the Open Offer to such Overseas Shareholders.

**Overseas Shareholders should note that they may or may not be entitled to the Open Offer. Accordingly, Overseas Shareholders should exercise caution when dealing in the securities of the Company.**

### **No application for excess Offer Shares**

No Qualifying Shareholder is entitled to apply for any Offer Shares in excess to his/her/its entitlement. Any Offer Shares not taken up by the Qualifying Shareholders and (if any) the Offer Shares to which the Excluded Shareholders would otherwise have been entitled under the Open Offer, will not be available for subscription by other Qualifying Shareholders by way of excess application and will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

The Directors hold the view that the Open Offer allows the Qualifying Shareholders to maintain their respective pro-rata shareholding in the Company and to participate in the future growth and development of the Group. It is estimated that an additional cost of approximately HK\$250,000 to administer the excess application procedures will be incurred, which is not cost effective from the viewpoint of the Company. After arm's length negotiations with the Underwriter, and taking into account that the related administration costs would be lowered in the absence of excess applications, the Directors consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole not to offer any excess application to the Qualifying Shareholders.

### **Fractions of Offer Shares**

No fractional entitlements to the Offer Shares will arise under the Open Offer.

### **Share certificates and refund cheques for the Offer Shares**

Subject to the fulfilment of the conditions of the Open Offer, share certificates for all Offer Shares are expected to be posted to the Qualifying Shareholders who have accepted and paid for the Offer Shares by ordinary post at their own risk on or before Friday, 25 September 2015. If the Open Offer is terminated or does not become unconditional, refund cheques are expected to be posted by ordinary post to the applicants at their own risk on or before Friday, 25 September 2015.

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## LETTER FROM THE BOARD

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### **Application for listing of the Offer Shares**

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Offer Shares on the Stock Exchange.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on the Stock Exchange as well as the stock admission requirements of HKSCC, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements will be made to enable the Offer Shares to be admitted into CCASS.

Dealings in the Offer Shares which are registered in the branch register of members of the Company in Hong Kong will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy, or any other applicable fees and charges in Hong Kong.

### **Underwriting Agreement**

Date: 7 July 2015 (as supplemented on 23 July 2015)

Underwriter: CNI Securities Group Limited (中國北方證券集團有限公司)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company, its connected persons and their respective associates. As at the Latest Practicable Date, the Underwriter and parties acting in concert with it did not hold any shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities of the Company.

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## LETTER FROM THE BOARD

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Number of Underwritten Shares: The Underwriter has conditionally agreed to underwrite the Underwritten Shares (being not less than 1,821,135,954 Offer Shares and not more than 1,850,955,954 Offer Shares) pursuant to the Underwriting Agreement

Underwriting commission: 2.5% of the aggregate Subscription Price in respect of the number of the Underwritten Shares on the Record Date

The terms of the Underwriting Agreement are agreed after arm's length negotiation between the Company and the Underwriter by reference to the existing financial position of the Group, the size of the Open Offer, the current and expected market condition and prevailing market rate. The Directors (including the independent non-executive Directors) consider that the terms of the Underwriting Agreement (including the underwriting commission) are fair and reasonable so far as the Company and the Shareholders are concerned.

The Underwriter may enter into sub-underwriting arrangement with sub-underwriter(s) or appoint any person to be sub-agent(s) on its behalf for the purpose of arranging for the subscription of the Underwritten Shares with selected subscribers with such authority and rights as the Underwriter has pursuant to its appointment under the Underwriting Agreement.

### **Conditions of the Underwriting Agreement**

The conditions of the Underwriting Agreement are set out in the section headed "Proposed Open Offer – Conditions of the Open Offer" above.

### **EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY**

Set out below is the shareholding structure of the Company (for illustration purpose only) (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Open Offer:

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## LETTER FROM THE BOARD

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### Scenario 1:

Assuming that there is no change to the issued share capital of the Company from the Latest Practicable Date up to and including the Record Date:

Shareholders	As at the Latest Practicable Date and up to the Record Date		Immediately after completion of the Open Offer			
			Assuming all the Offer Shares are subscribed for by the Qualifying Shareholders and there is no Excluded Shareholders		Assuming the Underwriter takes up all the Offer Shares	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Dr. Cheung	161,290,800	8.86	322,581,600	8.86	161,290,800	4.43
Biochem Investments (Note 2)	125,328,000	6.88	250,656,000	6.88	125,328,000	3.44
Mr. Cheung (Note 3)	2,800,000	0.15	5,600,000	0.15	2,800,000	0.08
<i>Subtotal</i>	<i>289,418,800</i>	<i>15.89</i>	<i>578,837,600</i>	<i>15.89</i>	<i>289,418,800</i>	<i>7.95</i>
Other public Shareholders	1,531,717,154	84.11	3,063,434,308	84.11	1,531,717,154	42.05
<b>Underwriter and</b>						
<b>Sub-underwriters</b>						
Underwriter (Note 4)	—	—	—	—	—	—
Sub-Agent (Note 5)	—	—	—	—	600,000,000	16.47
Remaining Sub-Underwriters (Note 5)	—	—	—	—	1,221,135,954	33.53
	<u>1,821,135,954</u>	<u>100.00</u>	<u>3,642,271,908</u>	<u>100.00</u>	<u>3,642,271,908</u>	<u>100.00</u>

## LETTER FROM THE BOARD

### Scenario 2:

Assuming that there is no change to the issued share capital of the Company other than as a result of the issue of Shares upon exercise of the Outstanding Options (other than the Director Options) in full from the Latest Practicable Date up to and including the Record Date:

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Open Offer					
			Immediately after the Outstanding Options (other than the Director Options) are exercised in full and up to the Record Date		Assuming all the Offer shares are subscribed for by the Qualifying Shareholders and there is no Excluded Shareholders		Assuming the Underwriter takes up all the Offer Shares	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Dr. Cheung	161,290,800	8.86	161,290,800	8.71	322,581,600	8.71	161,290,800	4.36
Biochem Investments (Note 2)	125,328,000	6.88	125,328,000	6.77	250,656,000	6.77	125,328,000	3.39
Mr. Cheung (Note 3)	2,800,000	0.15	2,800,000	0.15	5,600,000	0.15	2,800,000	0.08
<i>Subtotal</i>	<i>289,418,800</i>	<i>15.89</i>	<i>289,418,800</i>	<i>15.64</i>	<i>578,837,600</i>	<i>15.64</i>	<i>289,418,800</i>	<i>7.82</i>
Other public Shareholders and holders of the Outstanding Options (other than the Directors Options)	1,531,717,154	84.11	1,561,537,154	84.36	3,123,074,308	84.36	1,561,537,154	42.18
<b>Underwriter and Sub-underwriters</b>								
Underwriter (Note 4)	—	—	—	—	—	—	29,820,000	0.81
Sub-Agent (Note 5)	—	—	—	—	—	—	600,000,000	16.21
Remaining Sub-Underwriters (Note 5)	—	—	—	—	—	—	1,221,135,954	32.99
	<u>1,821,135,954</u>	<u>100.00</u>	<u>1,850,955,954</u>	<u>100.00</u>	<u>3,701,911,908</u>	<u>100.00</u>	<u>3,701,911,908</u>	<u>100.00</u>

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*Notes:*

- (1) Certain percentage figures included in the above tables have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.
- (2) The entire issued share capital of Biochem Investments is wholly owned by Dr. Cheung.
- (3) Mr. Cheung is an executive Director and the elder brother of Dr. Cheung.
- (4) Based on the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscribers of the Untaken Shares, the Underwriter, among other things,
  - (i) shall not subscribe, for its own account, for such number of Untaken Shares which will result in it and parties acting in concert with it holding 29.9% or more (not to trigger a mandatory offer obligation under Rule 26 of Takeovers Code) of the voting rights of the Company immediately upon the allotment and issue of the Offer Shares;
  - (ii) shall use all reasonable endeavours to procure that each of the subscribers of the Untaken Shares (including any direct and indirect sub-underwriter), shall be third parties independent of, not acting in concert with or not connected with any connected persons or core connected persons of the Company and their respective associates or close associates;
  - (iii) shall ensure that none of the persons (including any direct and indirect sub-underwriters) to be procured by or on behalf of it to subscribe for the Underwritten Shares will become a substantial shareholder of the Company (holding 10% or more of the voting rights of the Company) immediately upon the allotment and issue of the Offer Shares and such persons, together with parties acting in concert with them, shall not be holding 29.9% or more (not to trigger a mandatory offer obligation under Rule 26 of Takeovers Code) of the voting rights of the Company immediately upon the allotment and issue of the Offer Shares;
  - (iv) shall and shall cause the sub-underwriters (if any) to procure independent subscribers and/or placees to take up such number of Untaken Shares as necessary and agrees to take such appropriate steps as may be reasonably required to maintain the minimum public float (within the meaning of the GEM Listing Rules) for the Shares in compliance with Rule 11.23(7) of the GEM Listing Rules in the event that there is insufficient public float of the Company immediately upon completion of the Open Offer solely because of the Underwriter's performance of its obligations under the Underwriting Agreement; and
  - (v) shall use all reasonable endeavours to procure that each of the direct and indirect sub-underwriters, shall be third party independent of, not acting in concert with and not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries and their respective associates.
- (5) The Underwriter entered into separate sub-underwriting agreements (collectively, "**Sub-Underwriting Agreements**") with 13 sub-underwriters/subscribers on 24 July 2015 (collectively, "**Sub-Underwriters**"), which consist of individuals, companies and one sub-underwriting agent ("**Sub-Agent**"), in respect of the sub-underwriting of an aggregate of 1,821,135,954 Underwritten Shares. Pursuant to the respective Sub-Underwriting Agreements: (i) the Sub-Agent, whose principal activities include underwriting, has agreed to sub-underwrite 600,000,000 Underwritten Shares, representing approximately 16.47% and approximately 16.21% of the total issued Shares immediately after completion the Open Offer under scenarios 1 and 2 above respectively; and (ii) the sub-underwriting commitment of each of the remaining 12 Sub-Underwriters (including one company whose principal activity is financial investment and eleven individuals) ("**Remaining Sub-Underwriters**") represents less than 5% of the total issued Shares immediately after completion of the Open Offer under both scenarios 1 and 2 above. As such,

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## LETTER FROM THE BOARD

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the Remaining Sub-Underwriters' sub-underwriting commitments will be counted towards the public float. The sub-underwriting commitment of the Remaining Sub-Underwriters, in aggregate, amounted to 1,221,135,954 Underwritten Shares, representing approximately 33.53% and approximately 32.99% of the total issued Shares immediately after completion of the Open Offer under scenarios 1 and 2 above respectively.

As informed by the Underwriter, the Sub-Agent has entered into further sub-underwriting agreements on 27 July 2015 with two sub-underwriter(s)/subscriber(s) ("**Parties**") (including one company whose principal activity is investment and one individual) in respect of the sub-underwriting of an aggregate of 300,000,000 Underwritten Shares by each of them, representing approximately 8.24% and approximately 8.10% of the total issued Shares immediately after completion of the Open Offer under scenarios 1 and 2 above respectively.

The Underwriter has confirmed to the Company that the parties to the respective sub-underwriting agreements have undertaken to put in place relevant arrangements as described in note 4 above in accordance with the terms and conditions of the Underwriting Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Sub-Agent, the Parties and the Remaining Sub-Underwriters and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company, its connected persons and their respective associates.

### REASONS FOR THE OPEN OFFER AND THE USE OF PROCEEDS

The Company is an investment holding company and the Group is principally engaged in the provision of beauty and slimming services from slimming centres, distribution sales of cosmetic and skin care products, sale of other health and beauty products and investment in securities.

The Board has been actively exploring business opportunities in order to diversify the Group's existing businesses and expand into new business. The Group has commenced a new business segment of investment in securities. In addition, the Board plans to continue to strengthen the Group's presence in the industry of beauty and slimming services by renovating its offices and shops to align with its high-end business focus and continue to develop its online shops. The Board considers these businesses and investments are capital intensive and is seeking to meet the capital requirements by conducting the Open Offer. In addition, the Company intends to (i) strengthen its capital base; (ii) provide sufficient surplus capital to support the development of existing and future businesses of the Group; (iii) provide funding for any potential investment or growth opportunities; and (iv) to strengthen its working capital.

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The gross proceeds from the Open Offer will be not less than approximately HK\$182.1 million and not more than approximately HK\$185.1 million. The net proceeds from the Open Offer (after deducting the related underwriting commission, professional fees and other estimated expenses) are estimated to be not less than approximately HK\$174.9 million and not more than approximately HK\$177.8 million which are intended to be applied in the following manner:

- (i) approximately HK\$50.0 million for the development of the new business segment of investment in securities;
- (ii) approximately HK\$40.0 million for the development of the new business segment of money lending;
- (iii) approximately HK\$20.0 million for the funding for acquisition of a property;
- (iv) approximately HK\$20.0 million for renovation of offices and shops;
- (v) approximately HK\$20.0 million for the development of e-commerce; and
- (vi) remaining balance for general working capital for existing businesses of the Group.

As at the Latest Practicable Date, save for the Open Offer, the Company did not have any immediate plan and was not contemplating to conduct further fund raising exercise for funding its existing operations or the proposed new business activities as described above in the next 12 months from the Latest Practicable Date.

### **Development of the new business segment of investment in securities**

As disclosed in the announcement of the Company dated 24 March 2015, the Group has commenced a new business segment of investment in securities, which may include (i) long-term and short-term investments in listed securities in Hong Kong and other recognised securities markets in the overseas; and (ii) wealth management products purchased from banks and other financial institutions (“**Securities Investment Business**”). The Board is of the view that the Securities Investment Business will diversify the income stream of the Group and broaden its revenue base. It is expected that the Securities Investment Business may also improve the capital usage efficiency of the Company and generate additional investment returns to the Company.

In considering the undertaking of the Securities Investment Business, the Board has considered, including but not limited to, the following factors: (i) the quantitative easing programme announced by European Central Bank (“**ECB**”) in January 2015 of which ECB commits monthly purchase of 60 billion Euros of asset-backed securities until at least



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## LETTER FROM THE BOARD

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September 2016 for supporting investment and consumption; (ii) economic growth rate of the PRC of approximately 7.4% in 2014; (iii) increase in money supply in the PRC as illustrated from financial data of January 2015 as announced by the People's Bank of China (which includes the increase in narrow and broad money as compared with last year and the increase in loans and deposits denominated in Renminbi and other foreign currencies as compared with last year); and (iv) the recent launch of the Shanghai-Hong Kong Stock Connect ("**Shanghai Connect**") and potential development of the Shenzhen-Hong Kong Stock Connect ("**Shenzhen Connect**") as detailed below.

In November 2014, the Shanghai Connect was launched and the market sentiment improved following an interest rate cut in the PRC. Through the Shanghai Connect, Hong Kong's securities market is expected to benefit from this mutual market access scheme in which more capital will flow into the securities market of Hong Kong. Subsequent to the launch of the Shanghai Connect, the average daily trading volume of securities on the Stock Exchange for the first three months of 2015 was approximately HK\$86.4 billion, representing an increase of approximately 26.5% when compared with the average daily trading volume of approximately HK\$68.3 billion for the same period last year. In addition, the Hang Seng Index closed at around 24,900 at the end of March 2015, representing an increase of approximately 12.4% when compared with around 22,151 at the end of March 2014.

It is further expected that the potential launch of the Shenzhen Connect will result in additional capital inflow into the securities market of Hong Kong. Based on the above considerations and taking into account the positive signals of a good investment environment, the Directors commenced the Securities Investment Business in March 2015 in order to capture the potential benefits from the rise in the securities market.

With the development of the Securities Investment Business, the Group requires readily available funds in order to capture suitable investment opportunities in a timely fashion to provide investment return to the Group and the Shareholders. The Company estimated the capital requirement for the Securities Investment Business with reference to, among others, the size of the current investment portfolio of approximately HK\$23.1 million, the average investment amount for each investment product of approximately HK\$7.2 million, the trading performance of the investments of the Company, the business plan of the Company and the prevailing market situations. The Directors intend to gradually diversify its investments portfolio in order to reduce the relevant concentration and investment risks and the Directors are of the view that the Company should seize the opportunity to increase its available funds by means of the Open Offer to capture the investment opportunities.

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## LETTER FROM THE BOARD

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With reference to the average investment amount for each investment product of approximately HK\$7.2 million and the size of the allocated net proceeds of HK\$50.0 million, the Company estimates that the Open Offer will enable the Company to expand its investment portfolio by acquiring around 7 additional investment products subject to the decision of the investment committee of the Company led by Mr. Mui Wai Sum (“**Mr. Mui**”), an executive Director. Mr. Mui has more than 7 years of experience and track record in investment in a wide range of investment products, including equity securities, mutual fund, equity-related securities and futures. Mr. Mui is also the financial columnist of several local newspapers and magazines. Mr. Mui’s proficiency in investment was recently demonstrated by the substantial gain in fair value of the financial assets of the Company of approximately HK\$86.4 million as disclosed in the annual report of the Company for the year ended 31 March 2015 (“**2015 Annual Report**”). Considering the above, the Directors are of the view that the Group has sufficient experience and resources in operating the Securities Investment Business.

### **Development of the new business segment of money lending**

The Group has continued to explore opportunities to diversify the businesses of the Group in order to enhance the income stream and continue to improve Shareholders’ return. The Group is in the process of obtaining a licence to conduct money lending business in Hong Kong (“**Lending Licence**”) under the provisions of the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Group expects to obtain the Lending Licence by the end of 2015 and the money lending business will be conducted after obtaining the Lending Licence. The net proceeds from the Open Offer will provide the Group with instant funding for commencement of its money lending business once the Group obtains the Lending License. As at the Latest Practicable Date, the Group has not identified any potential lenders but the money lending business is expected to be conducted through provision of secured and unsecured loans to its potential customers. The Directors expect that with the anticipated ending of the low interest rate environment in the United States of America in the near future which may lead to the increase in the future interest rate, the Group will benefit from the development of money lending business. The Group targets corporations and individuals with needs of short-term financing of 6 months or less with loan portfolio of not more than HK\$5.0 million for each individual loan in order to maintain a quick turnaround of loan portfolio and minimize the credit risk of the Group. The Group will consider expanding the loan portfolios based on the performance of this segment in the future if appropriate. The Group intends to apply net proceeds from the Open Offer of approximately HK\$40.0 million to the development of the money lending business segment, which is determined with reference to the target of around 8 active loan accounts to maintain a simple loan portfolio structure. The Directors consider strong cash flow and financial capability are fundamental factors for the money lending business to operate successfully. Quick turnover and the immediate availability of funding in the money lending business requires the availability of a significant amount of cash and liquidity at the beginning phase of business setup.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Group's money lending business was still at its infant stage. The Group plans to leverage on the vast business connections developed by the Company since its founding in July 2000 as one of the methods to solicit initial customers for the money lending business. The Group also plans to setup a specific team for operating the money lending business and to mitigate its risk through prudent credit assessment and credit risk management policies by monitoring the value of the secured assets, where available. Based on the (i) target loan composition (small number of active loan accounts, short loan term and not more than HK\$5.0 million for each individual loan); (ii) the vast business connections developed by the Company since its founding in July 2000; and (iii) the Group's plan to setup a specific team for operating the money lending business, the Directors consider that the Group has sufficient experience and resources in operating the money lending business.

### **Funding the acquisition of a property**

As disclosed in the announcement of the Company dated 8 May 2015 (“**May Announcement**”), the Company entered into a provisional agreement with an independent third party in relation to the acquisition of a commercial property (“**Property**”). The Directors estimated that the purchase price together with the transaction costs such as stamp duty, property agent commission and legal costs will put the total costs of the Property at approximately HK\$50.0 million, of which approximately HK\$5.0 million has been paid for as deposits. After the completion of the acquisition of the Property, the Group estimates to incur approximately HK\$5.0 million for renovation and enhancement of the Property. Therefore, the Company intends to apply approximately HK\$20.0 million of the net proceeds from the Open Offer for funding part of the purchase price of the Property.

The Group intends to hold the Property for investment purpose and/or self-use as a beauty and slimming centre and will, depending on the then market circumstances, lease out all or part of the Property for rental income.

As disclosed in the May Announcement, the Company originally intended to satisfy the purchase price of the Property by a combination of internal resources of the Group and bank mortgage financing to the extent where available, which was the then available options to the Company. The Board has considered factors, among others, (i) most of the available cash of the Group has been allocated for specific purposes (details of which were disclosed in the announcement of the Company dated 17 December 2014 regarding the placing of shares under specific mandate and general mandate and the announcements of the Company dated 10 July 2014 and 25 September 2014 regarding the rights issue of the Company), such as identified acquisitions (the acquisition and capital injection of I Pro Medical Skin Care Centre Limited, details of which were disclosed in the announcement

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## LETTER FROM THE BOARD

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of the Company dated 12 June 2015), potential investments and e-commerce platform development according to the business plan of the Group; (ii) the Company has been actively expanding its Securities Investment Business and other business opportunities to diversify its revenue stream which may require cash; (iii) the expected mortgage terms available to the Group; and (iv) the Company had not yet identified an appropriate underwriter upon the date of the May Announcement.

As at the date of the May Announcement, the Company intended to finance majority of the purchase price of the Property by bank mortgage and the remaining would be funded by the Group's internal resources. Subsequent to the publication of the May Announcement, the Company has approached several banks for the best mortgage financing terms on the bank mortgage of 40% of the valuation of the Property ("**Bank Mortgage**") and was offered the best interest rate of approximately 3% per annum.

With reference to the minimum interest rate of approximately 3% per annum available for the Bank Mortgage and a loan amount of approximately HK\$20.0 million, the Company is expected to incur cumulative interest payment of approximately HK\$4.8 million for the possible mortgage financing.

The Company expects that with the anticipated ending of the persistent low interest rate environment in the United States of America in the near future which may lead to the increase in the future interest rate and the Company will incur higher finance cost in the acquisition of the Property by bank financing. Therefore, the Company considers to lower the portion of the bank financing for funding the acquisition of the Property.

The Company has continuously sought ways to strengthen its capital base and enhance its financial position for future strategic investments when suitable opportunities arise and to reduce the operating and finance costs of the Company and enhance Shareholders' value. Additionally, the Directors has been exercising due and careful consideration when choosing the financing method available to the Group from time to time for the best interest of the Group. The Board has identified the Underwriter and negotiated on the terms of the Open Offer subsequent to the date of the May Announcement. Having considered that the utilisation of the net proceeds of approximately HK\$20.0 million from the Open Offer for financing part of the purchase price of the Property will reduce the interest expenses of approximately HK\$4.8 million to be incurred from bank financing and can improve the gearing position of the Group, the Directors consider the change in the means for financing part of the purchase price of the Property as disclosed in the May Announcement would be in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Under the prevailing economic environment, investing in the property market in Hong Kong is a relatively prudent investment option for providing the Group with a steady income stream and for capturing capital appreciation potential. Moreover, in view of the increasing rental expenses in Hong Kong, the Directors consider that the renewal of existing rental agreements of the beauty and slimming centres may result in higher rental costs. Therefore, the Directors consider that the acquisition of the Property will provide the Group with flexibility in selection of venue for use as beauty and slimming centre for the Group's future business development.

### **Renovation of offices and shops**

The beauty, slimming and spa centres of the Group are situated in prime locations in Hong Kong and the PRC. In order to align with the shift of business focus to high-end products and services, the Board intends to consolidate the best of the professional beauty technicians and the most up-to-date modern technologies of the Group with attractive designs and plans to renovate its beauty, slimming and spa centres for improving customer experience.

The Group intends to apply net proceeds from the Open Offer of approximately HK\$20.0 million in the renovation of offices and shops, out of which (i) an aggregate of approximately HK\$11.5 million to renovate around five existing beauty, slimming and spa centres located in Hong Kong and the PRC; (ii) an aggregate of approximately HK\$7.0 million to renovate its head office and newly acquired beauty centers in Hong Kong and the PRC; and (iii) approximately HK\$1.5 million to replace its outdated machinery and equipment.

### **Development of e-commerce**

Since its launch in October 2012, BeautyU, the first online beauty and slimming service booking platform in the PRC, continued to enjoy big success in soliciting beauty and slimming service providers to join, and attracting retail customers to make bookings online in accordance with their own needs. BeautyU also allows customers to enjoy shopping online at their own pace. In view of the rapid growing population of internet users in the PRC, the management of the Company are of the view that e-commerce is the inevitable direction for development of this business. The Group intends to continue to invest in enhancing the e-commerce platform(s) of the Group in order to improve customer experience in online shopping and strengthen its leading position in the market. In view of the continuous change of shopping behaviour, the increasing demand and requirement of the online customers, the Company has considered to develop the new e-commerce platform with technology such as mobile commerce applications with functions and features including but not limited to: (i) scheduling and reservation function to attract customers to book the service online in anytime and anywhere and enjoy the service

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## LETTER FROM THE BOARD

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in the physical stores of the Group; (ii) membership reward and management service in which the members can enjoy their exclusive privileges and redeem the gifts and service conveniently; (iii) mobile shopping cart with online payment method which can shorten the payment processing time so as to optimise customers' shopping experience; (iv) promotional news and events to enable customers to keep abreast of updates and discount offers through their mobile devices; (v) phone-based payment method; and (vi) data analytical services which is expected to enable the Company to collect data and information on customers' spending habit and preference for carrying out more precise and targeted marketing campaigns. Leveraging on the above, the Group expects to catch up with the growing business potential and opportunities in e-commerce and the increasing use of mobile applications.

The Group has approached an information technology company for the development of the enhanced e-commerce platform recently and the estimated aggregate development cost and annual operating cost of an e-commerce platform of similar size and design is approximately HK\$23.0 million. After considering the unutilised balance of approximately HK\$3.0 million for the development of e-commerce from the proceeds of the rights issue announced on 10 July 2014 and 25 September 2014, the Group will apply HK\$20.0 million from the proceeds of the Open Offer for such development.

### **General working capital for existing business of the Group**

The Board aims to strengthen the Group's established presence and reputation in the beauty industry in Hong Kong and the PRC by continuing the building of its strong team of high caliber professionals coupled with a meticulously managed product and service portfolio.

After considering the unutilised balance of approximately HK\$8.8 million of general working capital of the Group from the proceeds of the rights issue announced on 10 July 2014 and 25 September 2014, and the net proceeds of approximately HK\$24.9 million to approximately HK\$27.8 million from the Open Offer, the Group will have not less than approximately HK\$33.7 million general working capital available for the operation and development of the Group upon completion of the Open Offer. As disclosed in the 2015 Annual Report, the total selling and distribution costs and general and administrative expenses of the Group for the year ended 31 March 2015 was approximately HK\$178.6 million. The Group considers that with the development of the new business segments of Securities Investment Business and money lending business, the Group may have to incur additional selling and distribution costs and general and administrative expenses for the development and administration of such businesses. In addition, the Group plans to continue to develop its products and services to cope with the industry development and apply the general working capital for, among others, (i) development of the product distribution, (ii) development of its franchise operation, and (iii) daily operating expenses

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## LETTER FROM THE BOARD

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such as marketing, employee training, research and development, office overheads, legal and professional fees and business networking expenditures incurred in conducting its beauty business.

The Company has unutilised proceeds of approximately HK\$52.7 million from the placing of shares under specific mandate and general mandate announced on 17 December 2014 and the rights issue announced on 10 July 2014 and 25 September 2014, out of which approximately HK\$10.0 million was intended for funding the capital injection to I Pro Medical Skin Care Centre Limited (a newly acquired wholly-owned subsidiary of the Company). The remaining unutilised proceeds of approximately HK\$30.3 million, HK\$8.8 million, HK\$3.0 million and HK\$0.6 million from the placing of shares under specific mandate, placing of shares under general mandate and the rights issue respectively were reserved for their intended purposes of funding the potential acquisition(s) to be identified by the Company, general working capital of the Group, development of e-commerce business and Securities Investment Business respectively. The Company is actively identifying other suitable investment projects, including but not limited to the vertical or horizontal acquisition of, or through co-operative arrangements and joint ventures with strategic partner(s) for acquisition of, other beauty and slimming centres in Hong Kong and overseas with a view to expanding its market share in the industry.

As majority of the unutilised proceeds of the Company from its previous fund raising activities have been allocated for specific uses, the Directors consider that surplus fund available for meeting future and possible financial and investment needs is limited. In order to provide sufficient and timely funding for possible future acquisition(s), the Board considers that it is appropriate to raise further funds by means of the Open Offers. In addition, a large extent of the net proceeds from the Open Offer has already been allocated for specific purposes and proposed to be utilised by the Company shortly upon the net proceeds from the Open Offer becoming available (such as, acquisition of property, office and shop renovation, e-commerce development, etc as disclosed in this section). The Company considers that if the Open Offer cannot be materialised, the Company may have to delay certain plans.

As at the Latest Practicable Date, no concrete terms had been established nor have any definitive agreements been entered into in respect of any such investment projects. The Group will keep the Shareholders updated and, where appropriate, publish announcements in accordance with the GEM Listing Rules should such investment projects be realised.

### **General**

The Board is of the view that the Open Offer will enable the Group to strengthen its capital base and enhance its financial position for future strategic investments when suitable opportunities arise. Furthermore, the Open Offer will give the Qualifying Shareholders the

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## LETTER FROM THE BOARD

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opportunity to maintain their respective pro-rata shareholding interests in the Company and participate in the growth and development of the Group. Accordingly, the Directors are of the view that fund raising through the Open Offer is in the interests of the Company and the Shareholders as a whole. **However, those Qualifying Shareholders who do not take up in full the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted. If all the Qualifying Shareholders do not take up the Offer Shares to which they are entitled and the Underwriter takes up all the Offer Shares, the percentage of shareholding (assuming that there is no change to the issued share capital of the Company from the Latest Practicable Date up to and including the Record Date) of the existing public Shareholders will be reduced from approximately 84.11% to 42.05%, representing a dilution effect on the shareholding of approximately 50.0% as a result of the Open Offer.**

The Board considers that it is prudent to finance the Group's long term growth by long term financing, preferably in the form of equity which will not increase the Group's finance costs. The Board has considered other fund raising alternatives before resolving to the Open Offer, including but not limited to debt financing and rights issue. Debt financing will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations. In addition, debt financing may not be achievable on favourable terms in a timely manner. Although rights issue can provide a way out to those Shareholders who do not wish to take up the entitlements by selling nil-paid rights shares, it is estimated that the additional costs and expenses of approximately HK\$250,000 would be incurred for such extra administrative work and the trading arrangements in relation to the nil-paid rights. In addition, in view of the downward trend of the historical trading price of the Shares, there is uncertainty of the existence of a market to trade the nil-paid rights shares. In view of the above, the Board considered that raising funds by way of the Open Offer is more cost effective, efficient, and beneficial to the Company and its Shareholders as a whole than a rights issue.

The estimated net price per Offer Share after deducting the related expenses of the Open Offer will be approximately HK\$0.096.

### WARNING OF THE RISKS OF DEALING IN SHARES

**Shareholders and potential investors should note that the Open Offer is conditional, among other conditions, upon the obligations of the Underwriter under the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Accordingly, the Open Offer may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**



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## LETTER FROM THE BOARD

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Shareholders should note that the Shares will be dealt in on an ex-entitlement basis commencing from Thursday, 20 August 2015 and that dealings in the Shares will take place while the conditions to which the Underwriting Agreement are subject to remain unfulfilled. Any Shareholder or other person dealings in the Shares up to the date on which all conditions to which the Open Offer is subject to are fulfilled (which is expected to be at 4:00 p.m. on Friday, 18 September 2015), will accordingly bear the risk that the Open Offer not becoming unconditional and may not proceed. Any Shareholder or other person contemplating to sell or purchase any Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

### FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any other fund raising activities in the past twelve months immediately preceding the Latest Practicable Date:

Date of announcement	Fund raising activity	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
17 December 2014	Placing of new shares under specific mandate	HK\$50.05 million	(i) as to approximately HK\$30.00 million for funding the possible acquisition of, and capital injection into, the entire issued share capital of a company which is principally engaged in the operation of a beauty centre in Hong Kong (details of which were disclosed in the announcement of the Company dated 22 January 2015)	(i) approximately HK\$18.00 million for the acquisition identified by the Company as intended (details of which were disclosed in the announcement of the Company dated 12 June 2015)
			(ii) as to approximately HK\$20.05 million for funding other potential acquisition(s) to be identified by the Company	(ii) approximately HK\$32.05 million has not yet been utilised and remains in the bank for the intended uses.
17 December 2014	Placing of new shares under general mandate	HK\$8.24 million	for funding the potential acquisitions(s) to be identified by the Company	approximately HK\$8.24 million has not yet been utilised and remains in the bank for the intended uses.

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## LETTER FROM THE BOARD

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Date of announcement	Fund raising activity	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
10 July 2014 and 25 September 2014	Rights issue on the basis of three rights shares for every one share held on the record date	HK\$84.39 million	(i) as to approximately HK\$50.00 million for the general working capital of the Group;  (ii) as to approximately HK\$3.00 million for the development of e-commerce;  (iii) as to approximately HK\$15.00 million for the marketing and promotion of the Group; and  (iv) as to approximately HK\$16.39 million for the opportunistic investment by the Group in other businesses	(i) as to approximately HK\$41.23 million for the general working capital of the Group;  (ii) as to approximately HK\$1.50 million for the marketing and promotion of the Group; and  (iii) as to approximately HK\$29.28 million for the opportunistic investment by the Group in other businesses  (iv) the remaining balance of approximately HK\$12.38 million has not yet been utilised and remains in the bank for the intended uses.

In view of effective control over marketing and promotion expenses of the Group, approximately HK\$13.5 million of the unutilised proceeds from the rights issue announced on 10 July 2014 and 25 September 2014 was re-allocated from marketing and promotion to investment in listed securities with the view to enable the Group to meet its overall investment needs more efficiently. There are no material changes in the nature of business of the Group and the Board believes that the above change in allocation of proceeds will not adversely affect the existing operation and business of the Group and is in the best interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **RISK FACTORS**

In compliance with the GEM Listing Rules, the Company sets out below the risk factors of the Group for the Shareholders' attention. The Directors believe that there are certain risks involved in the operations of the Group which includes, but is not limited to, the following:

#### **Risks relating to the Group's normal course of business**

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business.

#### **Risks relating to health and beauty product sales**

The health and beauty product market is highly fragmented and is characterised by frequent changes in customers' needs and behaviours upon introduction of new products. The customers are tempted to shift their choices and preferences whenever there are new products launched or induced by various marketing and pricing campaigns of different brands. The Group's business may be adversely affected by such operating environment. In the event that the Group fails to introduce new products to meet changing preferences of its customers and gain market acceptance, its future growth and prospects may be materially and adversely affected. The Group may also have to entail substantial investment in marketing and promotion to gain market acceptance of its new products.

In addition, the Group may be subject to product liability claims arising from the use of its products. A successful product liability claim brought against the Group or a requirement to participate in any product recall may have a material adverse effect on the Group's businesses and financial results. The Group's reputation may also be adversely affected if any such claims are made.

#### **Risks relating to competition**

The health and beauty business is under rigorous competition throughout the world. There is no assurance that the Group will be able to anticipate the timing and scale of its competitors' activities and initiatives or to successfully counteract them, which could harm the business of the Group. Increased competition and the need for the Group to respond to activities of competitors could generate additional pricing pressure, result in price reduction and reduced profit margins and/or loss of market share, any of which could adversely affect the Group's operating results. A failure to compete effectively could materially and adversely affect the growth, profitability and operation of the Group.

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## LETTER FROM THE BOARD

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### **Risks relating to the global market**

Although the Group's business is principally based in Hong Kong and the PRC, their economic conditions are susceptible to global market fluctuations. Meanwhile, despite the slight improvement in the global economy in the year 2014, the economic growth of the PRC continued to slow down. The growth of the Gross Domestic Products of the PRC for year 2014 was only 7.4%, which was a new low in more than 20 years. If the economic growth of the PRC or improvement in global economy slows down, or the global economic condition worsens, the business operations of the Group may be materially and adversely affected.

### **Risks relating to the Group's reliance on major suppliers**

For the years ended 31 March 2013, 2014 and 2015, purchases by the Group from the top five suppliers amounted to approximately 97.16%, 97.16% and 98.61% of the Group's costs of sales respectively, and purchases by the Group from the largest supplier included therein amounted to approximately 92.57%, 93.56% and 98.54% respectively. In the event that the Company is unable to secure further purchases from any of these suppliers and the Company cannot find comparable substitutes, the Group's operations may be adversely affected.

### **Risks relating to Securities Investment Business**

The Securities Investment Business is directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in the trading volume and the credit capacity or perceived credit worthiness of the securities industry in the marketplace. The Securities Investment Business is also subject to general economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates.

Any sudden downturn in the securities markets may adversely affect the market sentiment in general which would in turn adversely affect the fair value of the investment portfolio of the Group and the performance of the Securities Investment Business.

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## LETTER FROM THE BOARD

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The performance of the Securities Investment Business is also determined by the Group's investment decisions and judgments based on the Group's assessment of existing and future market conditions. The Group will closely monitor the market value and financial performance of its investment portfolio, and actively adjust such portfolio and allocate assets based on market conditions and internal risk management guidelines. However, the Group's investment decisions are a matter of judgment, which involves management discretion and assumptions. If the decision-making process fails to effectively minimise losses while capturing gains, or the forecasts do not conform to actual changes in market conditions, the Securities Investment Business may not achieve the investment returns as anticipate, and the Group could suffer losses.

### **Risks relating to the Group's money lending business**

The Group is in the process of obtaining a licence to conduct money lending business in Hong Kong. The Group's money lending business is subject to licensing requirements under the provisions of the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The money lenders licence is granted by the licensing court and is renewable annually subject to satisfaction of all licensing conditions. The licensing court has the discretion to suspend or revoke the licence if the licensee is in breach of any licensing conditions. Upon the obtaining of the money lenders licence by the Group, in the event that any licensing conditions is inadvertent breached by the Group, it may lead to suspension or revocation of the Group's money lenders licence resulting in suspension or termination of the money lending business.

Further, upon the obtaining of the money lenders licence and commencement of the money lending business by the Group, the money lending business is subject to risks that a borrower or counterparty may fail to perform its contractual obligations or that the value of collateral security held to secure such obligations may be inadequate. While the Group intends to adopt internal policies and procedures upon commencement of the money lending business to manage such risks, these policies and procedures may not be fully effective. Any material non-payment or non-performance by a borrower or counterparty could adversely affect the financial position, results of operations and cash flows of the Group.

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## LETTER FROM THE BOARD

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### ADJUSTMENTS IN RELATION TO THE OUTSTANDING OPTIONS AND THE CONVERTIBLE NOTE

As at the Latest Practicable Date, there were (i) Outstanding Options granted under the Share Option Scheme entitling the holders thereof to subscribe for up to an aggregate of 34,486,666 Shares; and (ii) the Convertible Note with outstanding principal amount of HK\$20,000,000 which is convertible into a maximum of 145,985,401 Shares at a prevailing conversion price of HK\$0.137 per conversion share. The Open Offer may cause adjustments to (i) the exercise price of the Outstanding Options and/or the number of Shares to be allotted and issued upon exercise of the Outstanding Options; and (ii) conversion price and/or the number of Shares to be allotted and issued upon exercise of the conversion rights attached to the Convertible Note. The Company will make further announcement in respect of such adjustments as and when appropriate.

### GEM LISTING RULES IMPLICATIONS

#### Increase in Authorised Share Capital

The Increase in Authorised Share Capital is subject to the approval by the Shareholders. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, no Shareholders were required to abstain from voting on any of the resolutions in respect of the Increase in Authorised Share Capital.

#### Open Offer

In accordance with Rule 10.39(1) of the GEM Listing Rules, the Open Offer will be made conditional on approval by the Independent Shareholders at the EGM by way of poll where any controlling shareholders of the Company and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Open Offer.

At the Latest Practicable Date:

- (i) the Company had no controlling shareholder;
- (ii) each of (i) Biochem Investments, a company wholly owned by Dr. Cheung (who is the chairman of the Board and an executive Director); (ii) Dr. Cheung; and (iii) Mr. Cheung held 125,328,000 Shares, 161,290,800 Shares and 2,800,000 Shares respectively; and
- (iii) save as disclosed above, none of the Directors or the chief executive of the Company and their respective associates held any Shares.

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## LETTER FROM THE BOARD

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On such basis, each of Biochem Investments, Dr. Cheung and Mr. Cheung shall abstain from voting in favour of the resolution in relation to the Open Offer and the transactions contemplated thereunder in accordance with Rule 10.39(1) of the GEM Listing Rules.

An Independent Board Committee of the Company comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Open Offer. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### GENERAL

The notice convening the EGM to be held at 4th Floor, Sands Buildings, 17 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong at 11:00 a.m. on Tuesday, 18 August 2015 is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire and in such event the instrument appointing a proxy shall be deemed to be revoked.

Upon approval of the Open Offer by the Independent Shareholders at the EGM, the Increase in Authorised Share Capital becoming effective and the registration of the Prospectus Documents with the Companies Registry of Hong Kong, the Prospectus Documents setting out details of the Open Offer will be despatched to the Qualifying Shareholders as soon as practicable on the Prospectus Posting Date and the Prospectus (without the Application Form) will be despatched to the Excluded Shareholders for information only.

### RECOMMENDATION

The Board considers that the Increase in Authorised Share Capital is fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in relation to the Increase in Authorised Share Capital.

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## LETTER FROM THE BOARD

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The executive Directors consider that the terms of the Open Offer are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the executive Directors recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM in relation to the Open Offer. The Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Shareholders are advised to read carefully the letter from the Independent Board Committee on pages 46 to 47 of this circular. The Independent Board Committee, having taken into account the advice of Gram Capital, the text of which is set out on pages 48 to 66 of this circular, considers that the terms of the Open Offer and the Underwriting Agreement are fair and reasonable insofar as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Open Offer and the Underwriting Agreement at the EGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,  
On behalf of the Board  
**Sau San Tong Holdings Limited**  
**Cheung Yuk Shan, Shirley**  
*Chairman*



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**SAU SAN TONG HOLDINGS LIMITED**

**修身堂控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8200)**

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED OPEN OFFER ON THE BASIS OF  
ONE OFFER SHARE FOR EVERY ONE SHARE  
HELD ON THE RECORD DATE AT HK\$0.10 PER OFFER SHARE**

We refer to the circular of the Company dated 31 July 2015 (“**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board as the members of the Independent Board Committee, to advise the Independent Shareholders as to whether, in our opinion, the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned. None of the members of the Independent Board Committee have any direct or indirect interest in the Open Offer and the Underwriting Agreement.

Details of the Open Offer are set out in the “Letter from the Board” on pages 13 to 45 of the Circular. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Open Offer. Details of its advice, together with the principal factors taken into consideration in arriving thereat, are set out in its letter on pages 48 to 66 of the Circular.

Having considered the terms of the Open Offer, taking into account the information contained in the Circular and the advice of Gram Capital, we are of the opinion that the terms of the Open Offer are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent

\* *for identification purpose only*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Shareholders to vote in favour of the relevant resolution approving the Open Offer at the EGM.

Yours faithfully,  
The Independent Board Committee

**Mr. Hong Po Kui, Martin**

**Mr. Li Kuo Hsing**

**Ms. Hui Yat Lam**

**Ms. Chiu Kam Hing, Kathy**

*Independent non-executive Directors*

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

31 July 2015

*To: The independent board committee and the independent shareholders  
of Sau San Tong Holdings Limited*

Dear Sirs,

### **PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY ONE SHARE HELD ON THE RECORD DATE AT HK\$0.10 PER OFFER SHARE**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 31 July 2015 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Subject to the Increase in Authorised Share Capital becoming effective, the Company proposes to raise not less than approximately HK\$182.1 million (before expenses) and not more than approximately HK\$185.1 million (before expenses), by way of an open offer of not less than 1,821,135,954 Offer Shares and not more than 1,850,955,954 Offer Shares at a subscription price of HK\$0.10 per Offer Share on the basis of one (1) Offer Share for every one (1) Share held on the Record Date.

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## LETTER FROM GRAM CAPITAL

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According to the Board Letter, in accordance with Rule 10.39(1) of the GEM Listing Rules, the Open Offer will be made conditional on approval by the Independent Shareholders by way of poll where any controlling shareholders of the Company and their respective associates or, where there are no controlling shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the resolution(s) relating to the Open Offer. Since the Company has no controlling shareholder as at the Latest Practicable Date, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company, and their respective associates shall abstain from voting in favour of the Open Offer in accordance with Rule 10.39(1) of the GEM Listing Rules. As at the Latest Practicable Date, Dr. Cheung, Biochem Investments (a company wholly owned by Dr. Cheung) and Mr. Cheung holds 161,290,800 Shares, 125,328,000 Shares and 2,800,000 Shares respectively. Each of Dr. Cheung and Mr. Cheung is an executive Director. On such basis, each of Biochem Investments, Dr. Cheung and Mr. Cheung shall abstain from voting in favour of the resolution in relation to the Open Offer and the transactions contemplated thereunder in accordance with Rule 10.39(1) of the GEM Listing Rules.

The Independent Board Committee comprising Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing, Ms. Hui Yat Lam and Ms. Chiu Kam Hing, Kathy (all being independent non-executive Directors) has been established to advise the Independent Shareholders (i) as to whether the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Shareholders as a whole; and (ii) on how to vote in relation to the Open Offer at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of

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## LETTER FROM GRAM CAPITAL

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the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Open Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 17.92 of the GEM Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Underwriter or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Open Offer. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

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## LETTER FROM GRAM CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Open Offer, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and reasons for the Open Offer

##### *Business and financial overview of the Group*

As referred to in the Board Letter, the Company is an investment holding company and the Group is principally engaged in the provision of beauty and slimming services from slimming centres, distribution sales of cosmetic and skin care products, sale of other health and beauty products and investment in securities.

Set out below are the audited consolidated financial results of the Group for the two years ended 31 March 2015 as extracted from the Company's annual report for the year ended 31 March 2015 (the "Annual Report"):

	<b>For the year ended 31 March 2015</b>	<b>For the year ended 31 March 2014</b>	<b>Year on year change</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Turnover	1,461,856	1,362,916	7.26
Gross Profit	126,242	173,166	(27.10)
Profit for the year attributable to the owners of the Company	37,527	3,221	1,065.07
	<b>As at 31 March 2015</b>	<b>As at 31 March 2014</b>	<b>Year on year change</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Cash and cash equivalents	182,953	99,647	83.60
Net assets	385,295	177,760	116.75

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## LETTER FROM GRAM CAPITAL

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As illustrated by the above table, despite the Group recorded an increase of approximately 7.26% in turnover for the year ended 31 March 2015 (“FY2015”) as compared to the previous financial year, gross profit for the FY2015 was decreased by approximately 27.10% as compared to the previous financial year. According to the Annual Report and as confirmed by the Directors, the decrease in gross profit is mainly due to a lower margin in the product distribution business. However, a fair value gain of approximately HK\$86.4 million from securities investment was recorded for the FY2015, and the profit attributable to the owners of the Company recorded a significant increase from approximately HK\$3.2 million for the year ended 31 March 2014 to approximately HK\$37.5 million for FY2015.

As for the asset position of the Group, we noted that the Group’s cash and cash equivalents as at 31 March 2015 was approximately HK\$183.0 million. As advised by the Directors, the substantial increase in cash and cash equivalents as at 31 March 2015 was mainly due to the fund raising activities conducted by the Company during FY2015 and the majority of the unutilised proceeds of the Company from its previous fund raising activities have been allocated for specific uses. As further advised by the Directors, as at 30 June 2015, the Group recorded cash and cash equivalents of approximately HK\$124.8 million.

As advised by the Directors and with reference to the Annual Report, in recent years, the Group realised that e-Commerce is flourishing but the beauty and slimming market is still untapped, the business potential is unpredictable. Therefore, starting from 2012, the Group invests in developing an one-stop online booking platform at [www.beautyu.com](http://www.beautyu.com) to pave the way for entering into the e-Commerce new Era.

In March 2015, the Group commenced a new business segment of investment in securities, with a view that such business will diversify the income stream of the Group and broaden its revenue base. It may also improve the capital usage efficiency and generate additional investment returns on the idle funds of the Company.

On 8 May 2015, a provision agreement in relation to the acquisition of a commercial property was entered into between a wholly-owned subsidiary of the Company (as purchaser) and an independent third party. The Board considered, among other things, that the purchase of the commercial property would enable the Group to achieve a considerable rent savings and would strengthen the asset and/or income base of the Group and provide capital appreciation potential to the Group.

With reference to the Circular, the Group is in the process of obtaining a license to conduct money lending business in Hong Kong (“**Lending License**”) under the provisions of the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Group expects to obtain the Lending License by the end of 2015 and the money lending business will be conducted after obtaining the Lending License.

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## LETTER FROM GRAM CAPITAL

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The Directors expect that the development of money lending business can provide a stable interest income stream to the Group which will benefit the Company and the Shareholders as a whole.

Looking forward, the Group will not only continue to develop its beauty and slimming business with all-out effort, but also put additional resources into the new business segment of securities investment as well as e-commerce platform, and will actively explore other investment opportunities by inviting experienced management professionals to join the Group, so as to broaden the knowledge base of the Group and diversify the Group's business to maximise the overall benefit for the Group and its shareholders.

### *Reasons for the Open Offer and intended use of proceeds*

With reference to the Board Letter, the Board has been actively exploring business opportunities in order to diversify the Group's existing businesses and expand into new business. The Group has commenced a new business segment of investment in securities. In addition, the Board plans to continue to strengthen the Group's presence in the industry of beauty and slimming services by renovating its offices and shops to align with its high-end business focus and continue to develop its online shops. The Board considers these businesses and investments are capital intensive and is seeking to meet the capital requirements by conducting the Open Offer. In addition, the Company intends to (i) strengthen its capital base; (ii) provide sufficient surplus capital to support the development of existing and future businesses of the Group; (iii) provide funding for any potential investment or growth opportunities; and (iv) to strengthen its working capital.

The Board is of the view that the Open Offer will enable the Group to strengthen its capital base and enhance its financial position for future strategic investments when suitable opportunities arise. Furthermore, the Open Offer will give the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and participate in the growth and development of the Group. Accordingly, the Directors are of the view that fund raising through the Open Offer is in the interests of the Company and the Shareholders as a whole. However, those Qualifying Shareholders who do not take up in full the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.

As majority of the unutilised proceeds of the Company from its previous fund raising activities have been allocated for specific uses, the Directors consider that surplus fund available for meeting future and possible financial and investment needs is limited. In order to provide sufficient and timely funding for possible



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## LETTER FROM GRAM CAPITAL

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future acquisition(s), the Board considers that it is appropriate to raise further funds by means of the Open Offers. In addition, a large extent of the net proceeds from the Open Offer has already been allocated for specific purposes and proposed to be utilised by the Company shortly upon the net proceeds from the Open Offer becoming available. The Company considers that if the Open Offer cannot be materialised, the Company may have to delay certain plans.

The gross proceeds from the Open Offer will be not less than approximately HK\$182.1 million and not more than approximately HK\$185.1 million. The net proceeds from the Open Offer (after deducting the related underwriting commission, professional fees and other estimated expenses) are estimated to be not less than approximately HK\$174.9 million and not more than approximately HK\$177.8 million which are intended to be applied in the following manner:

- (i) approximately HK\$50.0 million for the development of the new business segment of investment in securities (the “**Proceeds for Investment in Securities**”);
- (ii) approximately HK\$40.0 million for the development of the new business segment of money lending;
- (iii) approximately HK\$20.0 million for the funding for acquisition of a property;
- (iv) approximately HK\$20.0 million for renovation of offices and shops;
- (v) approximately HK\$20.0 million for the development of e-commerce; and
- (vi) remaining balance for general working capital for existing businesses of the Group.

As confirmed by the Directors, as at the Latest Practicable Date, save for the Open Offer, the Company does not have any immediate plan and is not contemplating to conduct further fund raising exercise for funding its existing operations or the proposed new business activities as described above in the next 12 months from the Latest Practicable Date.

Details of the use of proceeds were set out under the section headed “Reasons for the Open Offer and the use of proceeds” of the Board Letter.

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## LETTER FROM GRAM CAPITAL

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In light of that the allocation of net proceeds from the Open Offer for (i) development of the new business segment of investment in securities was estimated with reference to, among other things, the average investment amount for each investment product of approximately HK\$7.2 million and the Proceeds for Investment in Securities will enable the Company to expand its investment portfolio by acquiring around seven additional investment products, subject to the decision of the investment committee of the Company; (ii) development of the new business segment of money lending business was estimated with reference to, among other things, the loan portfolio of not more than HK\$5.0 million for each individual loan and the target of around eight active loan accounts to maintain a simple loan portfolio structure; (iii) funding for acquisition of a property was estimated with reference to the unsettled purchase price of the property of approximately HK\$41 million and the estimated cost for renovation and enhancement of the property of approximately HK\$5.0 million; (iv) renovation of offices and shops was estimated with reference to the cost of the renovation of existing beauty, sliming and spa centers located in Hong Kong and the PRC of approximately HK\$11.5 million, renovation of head office and newly acquired beauty centers in Hong Kong and the PRC of approximately HK\$7.0 million and replacement of outdated machinery and equipment of approximately HK\$1.5 million; and (v) development of e-commerce was estimated with reference to the cost of the development of the enhanced e-commerce platform, based on the estimated aggregate development cost and annual operating cost of a similar size and design e-commerce platform of approximately HK\$23.0 million, we consider that the allocations of net proceeds are justifiable.

In addition, we noted from the Board Letter that the Company expects to obtain the Lending License by the end of 2015. We have enquired into the Directors regarding the need to raise fund for the development of money lending business at current stage. As advised by the Directors, after taking into account that (i) the Company will obtain proceeds from the Open Offer after the latest time for termination, which is expected to take place on 18 September 2015; (ii) it is in the interest of the Group to have immediate funding to capture potential business opportunities for money lending business in a prompt manner once the Lending License is granted; and (iii) the Company will be able to facilitate the development of its money lending business by utilising the readily available fund in the event that the Lending License is granted at the time earlier than it is expected, it is acceptable to raise fund for money lending business at current stage.

In light of the above, we consider that the reasons for the Open Offer are justifiable.

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## LETTER FROM GRAM CAPITAL

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### *Financing alternatives available to the Group*

Save as the fund raising activities as set out under the section headed “Fund raising activities of the Company in the past twelve months” of the Board Letter, the Company has not conducted any other fund raising activities in the past 12 months immediately preceding the Latest Practicable Date.

With reference to the Board Letter, in view of effective control over marketing and promotion expenses of the Group, approximately HK\$13.5 million of the unutilised proceeds from the rights issue announced on 10 July 2014 and 25 September 2014 was re-allocated from marketing and promotion to investment in listed securities with the view to enable the Group to meet its overall investment needs more efficiently. There are no material changes in the nature of business of the Group and the Board believes that the above change in allocation of proceeds will not adversely affect the existing operation and business of the Group and is in the best interests of the Company and its Shareholders as a whole.

With reference to the Board Letter, the Board considers that it is prudent to finance the Group’s long term growth by long term financing, preferably in the form of equity which will not increase the Group’s finance costs. The Board has considered other fund raising alternatives before resolving to the Open Offer, including but not limited to debt financing and rights issue. Debt financing will result in additional interest burden, higher gearing ratio of the Group and subject the Group to repayment obligations. In addition, debt financing may not be achievable on favourable terms in a timely manner. Although rights issue can provide a way out to those Shareholders who do not wish to take up the entitlements by selling nil-paid rights, rights issue will involve extra administrative work and cost for the trading arrangements in relation to the nil-paid rights. It is estimated that the additional costs and expenses of approximately HK\$250,000 would be incurred for such administrative work and the trading arrangements in relation to the nil-paid rights. In addition, in view of the downward trend of the historical trading price of the Shares, there is uncertainty of the existence of a market to trade the nil-paid rights. In view of the above, the Board considered that raising funds by way of the Open Offer is more cost effective, efficient, beneficial to the Company and its Shareholders as a whole than a rights issue.

Having taken into consideration the aforesaid weaknesses of the other financing alternatives and the possible benefits of the Open Offer, we concur with the Directors that the Open Offer is an appropriate financing method currently available to the Company and we also consider the Open Offer to be in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM GRAM CAPITAL

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### 2. Principal terms of the Open Offer

The following table summarises the major terms of the Open Offer:

<b>Basis of the Open Offer:</b>	One (1) Offer Share for every one (1) Share held on the Record Date
<b>Subscription Price:</b>	HK\$0.10 per Offer Share
<b>Number of Shares in issue as at the Latest Practicable Date:</b>	1,821,135,954 Shares
<b>Number of Offer Shares:</b>	Not less than 1,821,135,954 Offer Shares and not more than 1,850,955,954 Offer Shares

The Subscription Price represents:

- (a) a discount of approximately 2.91% to the closing price of HK\$0.103 per Share as quoted on the Stock Exchange on the Last Practicable Date;
- (b) a discount of approximately 12.28% to the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a discount of approximately 31.32% to the average closing price of HK\$0.1456 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 40.41% to the average closing price of HK\$0.1678 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Day; and
- (e) a discount of approximately 6.54% to the theoretical ex-entitlement price of HK\$0.107 per Share, based on the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Last Trading Day.

With reference to the Board Letter, the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the market price of the Shares under the prevailing market conditions, thin liquidity of the Shares, historical financial performance and financial position of the Group.

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## LETTER FROM GRAM CAPITAL

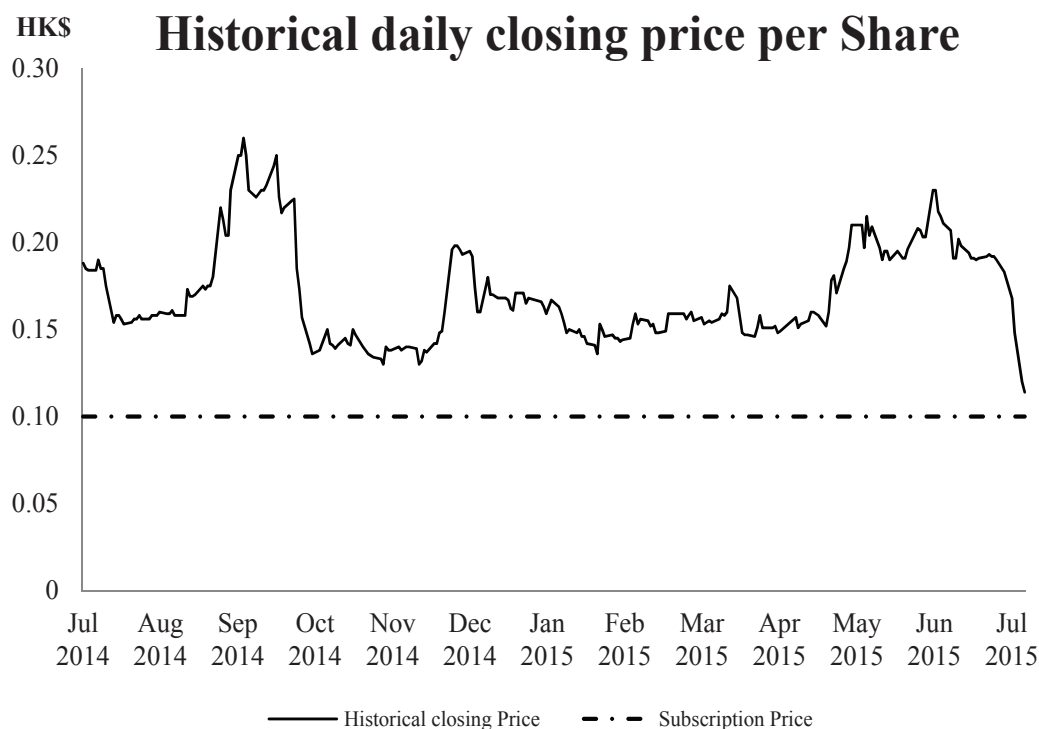
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### *Analysis on the Subscription Price*

In order to assess the fairness and reasonableness of the Subscription Price, we set out the following informative analysis for illustrative purpose:

#### *Review on trading liquidity of the Existing Shares*

The diagram demonstrating the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 2 July 2014 up to and including the Last Trading Day (the “**Review Period**”) (being a period of approximately one year prior to and including the Last Trading day, which is commonly used for analysis purpose) is shown as follows:



Source: the Stock Exchange's web-site ([www.hkex.com.hk](http://www.hkex.com.hk))

#### *Note:*

*The closing prices of the Shares from 2 July 2014 to 24 August 2014 (both days inclusive) were adjusted for the effect of the rights issue of the Company. For details of the rights issue, please refer to the circular of the Company dated 6 August 2014.*

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.114 per Share recorded on the Last Trading Day and HK\$0.26 per Share recorded on 3 September 2014 respectively. The Subscription Price represents discounts to the daily closing prices of the Shares during the Review Period.

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## LETTER FROM GRAM CAPITAL

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### *Review on trading liquidity of the Shares*

The average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Last Trading Day; and (ii) the total number of issued Shares as at the Last Trading Day, during the Review Period are tabulated as follows:

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") <i>Shares</i>	% of the Average	% of the Average
			Volume to total number of issued Shares held by the public as at the Last Trading Day ( <i>Note 1</i> ) <i>%</i>	Volume to total number of issued Shares as at the Last Trading Day ( <i>Note 2</i> ) <i>%</i>
2014				
July	22	1,073,182	0.07	0.06
August	21	2,374,545	0.16	0.13
September	21	7,304,526	0.48	0.40
October	21	7,557,668	0.49	0.41
November	20	21,865,287	1.43	1.20
December	21	12,045,239	0.79	0.66
2015				
January	21	5,668,373	0.37	0.31
February	18	9,986,974	0.65	0.55
March	22	36,014,361	2.35	1.98
April	19	87,081,669	5.69	4.78
May	19	46,443,410	3.03	2.55
June	22	24,362,867	1.59	1.34
July (up to and including the Last Trading Day)	4	31,507,750	2.06	1.73

*Source: the Stock Exchange web-site (www.hkex.com.hk)*

*Notes:*

1. Based on 1,531,717,154 Shares held by the public as at the Last Trading Day.
2. Based on 1,821,135,954 Shares in issue as at the Last Trading Day.

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## LETTER FROM GRAM CAPITAL

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The above table illustrates that the average daily trading volume of the Shares per month had been thin during the Review Period. Save for April 2015, the volume of Shares traded during the Review Period was below 5% of the total number of issued Shares held by the public as at the Last Trading Day. The average daily trading volume of the Shares in most of the months during the Review Period had been thin. Since the Shares were generally illiquid in the open market, we concur with the Directors that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Open Offer if the Subscription Price was not set at discount to the historical closing prices of the Shares.

### *Comparison with other open offer transactions*

We have searched for the open offer transactions (the “**Comparables**”) which were announced from 1 June 2015 up to the Last Trading Day by companies listed on the Stock Exchange for comparison purpose. We consider that a sampling period of approximately one month is adequate and appropriate given that (i) such period is sufficiently recent to demonstrate the prevailing market practices prior to the Last Trading Day; and (ii) we were able to identify sufficient samples for comparison with such period. To the best of our knowledge and as far as we are aware of, we found 7 transactions which met the said criteria and they are exhaustive as far as we are aware of. Shareholders should note that the businesses, operations and prospects of the Company are not the same as the subject companies of the Comparables and thus the Comparables are only used to provide a reference (which also forms part of

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## LETTER FROM GRAM CAPITAL

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our analysis for our opinion) for the recent common market practice of Hong Kong listed companies regarding the open offer transactions. Summarised below is our relevant findings:

Company name	Stock code	Date of announcement	Discount of the subscription price to the closing price per share on the last trading days prior to/on the date of the announcements in relation to the respective open offer	Discount of the subscription price to the theoretical ex-entitlement price per share based on the closing price per share on the last trading days prior to/on the date of the announcements in relation to the respective open offer	Basis of allotment	Potential maximum dilution of shareholding (Note 1)
New City Development Group Limited	456	3 June 2015	(24.32)	(20.45)	1 for 4	20.0%
China National Culture Group Limited	745	8 June 2015	(76.40)	(61.80)	1 for 1	50.0%
Long Success International (Holdings) Limited	8017	17 June 2015	(89.38)	(75.94)	5 for 3	62.5%
			<i>(Note 2)</i>	<i>(Note 2)</i>		
Tai Shing International (Holdings) Limited	8103	17 June 2015	(59.68)	(49.66)	1 for 2	33.3%
Wuling Motors Holdings Limited	305	18 June 2015	(15.66)	(13.37)	1 for 5	16.7%
IRC Limited	1029	29 June 2015	(38.20)	(32.80)	4 for 15	21.1%
Fujian Holdings Limited	181	29 June 2015	(59.60)	(49.37)	1 for 2	33.3%
<b>Minimum</b>			<b>(15.66)</b>	<b>(13.37)</b>		
<b>Maximum</b>			<b>(89.38)</b>	<b>(75.94)</b>		
<b>Mean</b>			<b>(51.89)</b>	<b>(43.34)</b>		
<b>The Company</b>	<b>8200</b>	<b>7 July 2015</b>	<b>(12.28)</b>	<b>(6.54)</b>	<b>1 for 1</b>	<b>50.0%</b>

*Note:* 1. Maximum dilution effect of each open offer is calculated as: (number of new shares to be issued under the basis of entitlement)/(number of existing shares held for the entitlement for the new shares under the basis of entitlement + number of new shares to be issued under the basis of entitlement) x 100%.

2. Trading of shares of the company was suspended from 3 December 2013.

As shown by the above table, the discount as represented by the subscription prices of the Comparables to the respective (i) closing prices of their shares on the last trading days prior to/on the date of the release of the respective open offer announcements ranged from 15.66% to 89.38% (the “**LTD Market Range**”); and (ii) theoretical ex-entitlement prices of their shares on the last trading days prior to/on the date of the release of the respective open offer announcements ranged from 13.37% to 75.94% (the “**TEEP Market Range**”). The discount of approximately



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## LETTER FROM GRAM CAPITAL

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12.28% to the closing price of the Shares on the Last Trading Day as represented by the Subscription Price is less than the LTD Market Range and the TEEP Market Range. Having also considered that the Subscription Price represents discounts to the daily closing price of the Shares during the Review Period, we consider that the Subscription Price is no less favourable to the Independent Shareholders.

### *Conclusion*

As the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Offer Shares for the purpose of maintaining their respective existing shareholding interests in the Company, the Directors considered that the discount to the prevailing market prices of the Shares as represented by the Subscription Price would encourage the Qualifying Shareholders to participate in the Open Offer and maintain their respective shareholding interests in the Company accordingly, and to take part in the future growth of the Company.

In light of (i) the Subscription Price represents discounts to the daily closing price of the Shares during the Review Period; and (ii) the average daily trading volume of the Shares in most of the months during the Review Period had been thin, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

### *Application for excess Open Offer*

With reference to the Board Letter, no Qualifying Shareholder is entitled to apply for any Offer Shares which are in excess to his/her/its entitlement. Any Offer Shares not taken up by the Qualifying Shareholders and (if any) the Offer Shares to which the Excluded Shareholders would otherwise have been entitled under the Open Offer, will not be available for subscription by other Qualifying Shareholders by way of excess application and will be taken up by the Underwriter pursuant to the terms and conditions of the Underwriting Agreement. It is estimated that an additional cost of approximately HK\$250,000 to administer the excess application procedures will be incurred, which is not cost effective from the viewpoint of the Company.

There are market practices from time to time for listed issuers not to offer excess application in consideration of the unnecessary administrative costs. In this respect, we noted that 4 out of 7 Comparables did not offer excess application for the offer shares. Accordingly, we are of the opinion that the absence of the excess application arrangement is in line with the common market practice.

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## LETTER FROM GRAM CAPITAL

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Although the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements, in light of that (i) the nil excess application should be balanced against the fact that the Subscription Price has been set at discounts to the prevailing market prices of the Shares which provides reasonable incentive for the Qualifying Shareholders to take up their respective assured entitlement of the Offer Shares and participate in the Open Offer; (ii) the Qualifying Shareholders who choose to accept their respective entitlements under the Open Offer in full can maintain their respective existing shareholdings in the Company after the Open Offer; (iii) the Open Offer allows the Qualifying Shareholders who are optimistic about the future development of the Company to exercise their rights to subscribe for the Offer Shares with a fair chance; and (iv) the nil excess application would lower the administrative costs of the Open Offer to the Company and is in line with common market practice, we consider that the absence of the arrangement for excess application under the Open Offer may not give rise to less favorable situation to the Independent Shareholders than the Underwriter. As such, we are of the view that the absence of excess application arrangement, on balance, is acceptable.

### *Underwriting arrangement*

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Underwritten Shares (being not less than 1,821,135,954 Offer Shares and not more than 1,850,955,954 Offer Shares) pursuant to the Underwriting Agreement. The Company shall pay to the Underwriter 2.5% of the aggregate Subscription Price in respect of the number of the Underwritten Shares on the Record Date (the “**Underwriting Commission**”).

From the table under the sub-section headed “Comparison with other open offer transactions” of this letter, we noted that the commissions received by underwriters in other open offer transactions ranged from nil to 5% and the Underwriting Commission falls within the range. Accordingly, we are of the opinion that the Underwriting Commission is in line with market practice.

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## LETTER FROM GRAM CAPITAL

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### 3. Possible dilution of the shareholding interests of the existing public Shareholders

Two tables which demonstrate the possible shareholding structures of the Company as at the Latest Practicable Date and up to the Record Date and immediately after completion of the Open Offer are contained under the section headed “Effects on the shareholding structure of the Company” in the Board Letter.

All Qualifying Shareholders are entitled to subscribe for the Offer Shares. For those Qualifying Shareholders who take up their entitlements in full under the Open Offer, their shareholding interests in the Company will remain unchanged after the Open Offer.

In the case that all Qualifying Shareholders do not accept the Open Offer and hence the Underwriter is obligated to take up the unsubscribed Offer Shares, the shareholding interests of the existing public Shareholders in the Company will be diluted by the maxima of approximately (i) 42.06 percent points assuming that there is no change to the issued share capital of the Company from the Latest Practicable Date up to and including the Record Date; and (ii) 41.93 percent points assuming that there is no change to the issued share capital of the Company other than as a result of the issue of Shares upon exercise of the Outstanding Options (other than the Director Options) in full from the Latest Practicable Date up to and including the Record Date.

We are aware of the potential dilution effects as just mentioned. Nonetheless, we consider that the foregoing should be balanced against by the following factors:

- Independent Shareholders are offered a chance to express their views on the terms of the Open Offer and the Underwriting Agreement through their votes at the EGM;
- Qualifying Shareholders have their choice of whether to accept the Open Offer or not;
- the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Offer Shares for the purpose of maintaining their respective existing shareholding interests in the Company at discounts to the prevailing market prices of the Shares; and
- those Qualifying Shareholders who choose to accept the Open Offer in full can maintain their respective existing shareholding interests in the Company after the Open Offer.

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## LETTER FROM GRAM CAPITAL

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Having considered the above, we concur with the Directors that the potential dilution to the shareholding interests of the existing public Shareholders in the Company, which may only happen when the Qualifying Shareholders do not subscribe for their pro-rata Offer Shares, is acceptable.

#### 4. Possible financial effects of the Open Offer

##### *Effect on net tangible assets*

Unaudited pro forma statement of adjusted consolidated net tangible assets (“NTA”) of the Group as if the Open Offer had taken place on 31 March 2015 is set out in Appendix II to the Circular (the “Statement”).

Based on the Statement, the audited consolidated NTA of the Group attributable to owners of the Company was approximately HK\$361.3 million and approximately HK\$0.20 per Share as 31 March 2015. According to the Statement, upon completion of the Open Offer, the unaudited pro forma adjusted consolidated NTA of the Group attributable to owners of the Company would become approximately HK\$536.2 million and HK\$0.15 per Share (based on 1,821,135,954 Offer Shares to be issued) or approximately HK\$546.6 million and HK\$0.15 per Share (based on 1,850,955,954 Offer Shares to be issued).

##### *Effect on working capital*

As confirmed by the Directors, the working capital (as calculated by current assets minus current liabilities) of the Group would be increased immediately after the completion of the Open Offer.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Open Offer.

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## LETTER FROM GRAM CAPITAL

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### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Open Offer is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Open Offer and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

**1. FINANCIAL INFORMATION**

The financial information of the Group for each of the three financial years ended 31 March 2013, 2014 and 2015 were disclosed in the annual reports of the Company for the years ended 31 March 2013 (pages 55 to 152), 2014 (pages 52 to 160) and 2015 (pages 56 to 160). The aforementioned financial information of the Group has been published on both the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of the Company ([www.sausantong.com](http://www.sausantong.com)). Please refer to the hyperlinks as stated below:

2013 annual report:

<http://www.hkexnews.hk/listedco/listconews/GEM/2013/0702/GLN20130702003.pdf>

2014 annual report:

<http://www.hkexnews.hk/listedco/listconews/GEM/2014/0630/GLN20140630045.pdf>

2015 annual report:

<http://www.hkexnews.hk/listedco/listconews/GEM/2015/0630/GLN20150630135.pdf>

**2. STATEMENT OF INDEBTEDNESS****Borrowings**

As at the close of business on 30 June 2015, being the most recent practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had total borrowings of approximately HK\$69,238,000, comprising (i) secured bank loans of approximately HK\$31,734,000 which were secured by pledge of certain trade receivables amounting to approximately HK\$79,102,000 and personal guarantee by a director of a subsidiary of the Company, (ii) unsecured amount due to a Director of approximately HK\$39,000, (iii) unsecured interest-bearing convertible notes with carrying value and principal amount of approximately HK\$19,505,000 and HK\$20,000,000 respectively and (iv) other unsecured long-term liability with carrying value and principal amount of approximately HK\$17,960,000 and HK\$20,000,000 respectively.

**Contingent Liabilities**

As at the close of business on 30 June 2015, the Group did not have any material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 30 June 2015, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed that no material changes in the indebtedness and contingent liabilities of the Group since 30 June 2015 up to and including the Latest Practicable Date.

**3. WORKING CAPITAL**

The Directors, after due and careful enquiry and consideration, are of the opinion that taking into account the present internal financial resources of the Group, the available banking facilities and the estimated net proceeds from the Open Offer, in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements and for at least twelve months from the date of this circular.

**4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**5. BUSINESS TREND AND FINANCIAL AND TRADING PROSPECTS**

In 2014, the core markets of the Company in Hong Kong and the PRC performed less than spectacular, where economic performance was below expectations albeit a modest but steady growth pace, dampening both private consumption and traveler expenditures. Increasing cost of sales including rentals further worsen the operating landscape. Stepping into 2015, with a weak start to the year and the US interest

rates on the cards, outlook for the local economy continued to be fogged as the US Federal Reserve again and again left the door open for delaying the timing and speed of the expected raise of policy rates, which might spark further bouts of volatility in the economies globally.

Notwithstanding the unfavorable operating conditions, the Group recorded satisfactory performance in the year ended 31 March 2015 (“**Year Under Review**”). A turnover amounting to approximately HK\$1,461,856,000 was recorded, representing an increase of 7.3% from approximately HK\$1,362,916,000 of the previous year. The main driver for the increase was the continued remarkable growth in the distribution sales of Shanghai Dong Fang Ri Hua Sales Co. Ltd. (“**Dong Fang**”), a non wholly-owned subsidiary of the Company. Turnover from Dong Fang increased by 12.6% to approximately HK\$1,398,485,000 during the Year Under Review (2014: approximately HK\$1,241,842,000). The management is confident that the revenues generated from the distribution business will continue to grow and generate stable and sizeable revenue to the Group as an increasing disposable income for vast swathes of the PRC population is expected to support the consumption of high-end products. With a tilt towards the distribution business in face of the current unfavourable environment for the segment, our beauty, slimming and spa centres in Hong Kong and in the PRC delivered a less amiable performance during the Year Under Review. Turnover generated from all our beauty, slimming and spa centres amounted to approximately HK\$42,977,000 (2014: approximately HK\$89,509,000), whereas the franchise cooperation business made a contribution of HK\$19,569,000 to the turnover of the Group (2014: HK\$30,195,000).

The Group’s core beauty and slimming business has remained in a difficult operating environment in the past year as the Hong Kong economic growth recorded meagre growth at a rate lower than the average rate of the past decade for the third consecutive year. Consumer demand was suppressed by austerity measures posed by the PRC Government and macro-economic uncertainties, but with the PRC Government’s commitment to restructure the economy from a growth spearheaded by the infrastructure and investment industries to one driven by domestic demand and services sector, the PRC economy is anticipated to embark on a more sustainable growth path in 2015. Globally, economic activities have shown clearer indications of a more upbeat trend. Moving forward, the management remains optimistic about the Group’s prospects in the principal markets of Hong Kong and the PRC and will continue to strive for stable growth through cost control efforts and stringent quality assurance measures for its services and products. The Group is also actively training its teams of talents to maintain a consistent service level across its beauty, slimming and spa centres in different regions.



The securities investments business of the Group recently established has contributed outstanding results for this year, opening an additional source of investment returns on the idle funds of the Company. While the Group remains principally focused on the beauty and slimming business, the new segment is a proven success to diversify the income stream, broaden the revenue base and optimise the capital usage efficiency. The investment portfolio of the Company will comprise meticulously selected listed securities in Hong Kong and other recognised securities markets overseas, as well as wealth management products purchased from banks and other financial institutions.

The Group is in the process of obtaining the Lending License under the provisions of the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Company expects to obtain the Lending Licence by the end of 2015 and the money lending business will be conducted after obtaining the Lending Licence. In view of the anticipated ending of the low interest rate environment in the United States of America in the near future which may lead to the increase in the future interest rate in Hong Kong, the Directors expect that the development of money lending business can provide a stable interest income stream to the Group which will benefit the Company and the Shareholders as a whole.

**1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED  
NET TANGIBLE ASSETS OF THE GROUP**

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 7.31 of the GEM Listing Rules is set out below to illustrate the effects of the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had taken place on 31 March 2015.

This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only, based on the judgements and assumptions of the Directors, and because of its hypothetical nature, may not give a true picture of the financial position of the Group following the Open Offer.

**APPENDIX II**

**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE GROUP**

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2015 <i>HK\$ '000</i>	Fully exercise of subscription rights attached to the Outstanding Options (other than the Director Options) <i>HK\$ '000</i>	Estimated net proceeds from the Open Offer <i>HK\$ '000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the Open Offer <i>HK\$ '000</i>
Based on 1,821,135,954 Offer Shares to be issued	<u>361,313</u> <i>(Note 1)</i>	<u>—</u>	<u>174,900</u> <i>(Note 2)</i>	<u>536,213</u>
Based on 1,850,955,954 Offer Shares to be issued	<u>361,313</u> <i>(Note 1)</i>	<u>7,476</u> <i>(Note 3)</i>	<u>177,800</u> <i>(Note 4)</i>	<u>546,589</u>
Audited consolidated net tangible assets of the Group attributable to owners of the Company per Share before the completion of the Open Offer <i>(Note 5)</i>				<u>HK\$0.20</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Open Offer (assuming no repurchase of Shares and none of the Outstanding Options are exercised) <i>(Note 6)</i>				<u>HK\$0.15</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Open Offer (assuming no repurchase of Shares and the subscription rights attached to the Outstanding Options (other than the Director Options) are exercised in full) <i>(Note 7)</i>				<u>HK\$0.15</u>

*Notes:*

1. It represents the consolidated net assets of the Group attributable to owners of the Company of approximately HK\$366,541,000 less goodwill and intangible assets of approximately HK\$320,000 and HK\$4,908,000 respectively as at 31 March 2015, which are extracted from the published audited consolidated statement of financial position of the Group as at 31 March 2015.
2. The estimated net proceeds from the Open Offer of approximately HK\$174,900,000 is calculated based on 1,821,135,954 Offer Shares to be issued (assuming no repurchase of Shares and none of the Outstanding Options are exercised) at the subscription price of HK\$0.10 per Offer Share after deduction of estimated related expenses.
3. Assuming there are no repurchases of Shares and the subscription rights attached to the Outstanding Options (other than the Director Options) are exercised in full, the consolidated net tangible assets of the Group attributable to owners of the Company would be increased by approximately HK\$7,476,000, being the weighted average exercise price of the Outstanding Options of HK\$0.2507 multiplied by 29,820,000 Outstanding Options.
4. The estimated net proceeds for the Open Offer of approximately HK\$177,800,000 is calculated based on 1,850,955,954 Offer Shares to be issued (assuming no repurchase of Shares and the subscription rights attached to the Outstanding Options (other than the Director Options) are exercised in full) at the subscription price of HK\$0.10 per share after deduction of estimated related expenses.
5. The audited consolidated net tangible assets of the Group attributable to owners of the Company per Share before the completion of the Open Offer is calculated based on HK\$361,313,000 divided by 1,821,135,954 Shares, being the number of Shares in issue as at 31 March 2015.
6. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Open Offer is calculated based on HK\$536,213,000 divided by 3,642,271,908 Shares, comprising 1,821,135,954 Shares, being the number of Shares in issue as at 31 March 2015, and 1,821,135,954 Offer Shares to be issued.
7. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share immediately after the completion of the Open Offer is calculated based on HK\$546,589,000 divided by 3,701,911,908 Shares, comprising 1,850,955,954 Shares, being the number of Shares in issue immediately before the completion of the Open Offer (assuming no repurchase of Shares and the subscription rights attached to the Outstanding Options (other than the Director Options) are exercised in full), and 1,850,955,954 Offer Shares to be issued.
8. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2015.

**2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA INFORMATION  
OF THE GROUP**

The following is the text of a report, prepared for inclusion in this circular, received from the independent reporting accountants of the Company, Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information.

2nd Floor  
625 King's Road  
North Point  
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT  
ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL  
INFORMATION****TO THE BOARD OF DIRECTORS OF SAU SAN TONG HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sau San Tong Holdings Limited (the "Company") and its subsidiaries (together the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 March 2015 as set out on pages II-1 to II-3 of the circular issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-3 of the circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed Increase in Authorised Share Capital and Open Offer (the "Proposed Transactions") on the Group's consolidated net tangible assets as at 31 March 2015 as if the Proposed Transactions had taken place as at 31 March 2015. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's consolidated financial statements for the year ended 31 March 2015, on which an audit report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline ("AG") 7, Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus, issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 31 March 2015 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

**Baker Tilly Hong Kong Limited**

*Certified Public Accountants*

Hong Kong, 31 July 2015

**Tong Wai Hang**

*Practising certificate number P06231*

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. SHARE CAPITAL**

(A) The authorised and issued share capital of the Company as at the Latest Practicable Date was as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>2,000,000,000</u>	ordinary shares of HK\$0.01 each	<u>20,000,000.00</u>
 <i>Fully paid or credited as fully paid Shares in issue:</i>		
<u>1,821,135,954</u>	Shares in issue and fully paid or credited as fully paid as at the Latest Practicable Date	<u>18,211,359.54</u>



(B) The authorised and issued share capital of the Company upon the Increase in Authorised Share Capital becoming effective and immediately following completion of the Open Offer are as follows:

(a) assuming that there is no change in the shareholding structure of the Company from the Latest Practicable Date up to the Record Date:

<i>Authorised:</i>		<i>HK\$</i>
<u>10,000,000,000</u>	ordinary shares of HK\$0.01 each	<u>100,000,000.00</u>
<i>Fully paid or credited as fully paid Shares/Offer Shares in issue or to be issued:</i>		
1,821,135,954	Shares in issue and fully paid or credited as fully paid as at the Latest Practicable Date	18,211,359.54
<u>1,821,135,954</u>	Offer Shares to be allotted and issued pursuant to the Open Offer	<u>18,211,359.54</u>
<u>3,642,271,908</u>	Shares in issue immediately upon completion of the Open Offer	<u>36,422,719.08</u>

(b) assuming that there is no change in the shareholding structure of the Company (save for all Outstanding Options (other than the Director Options) being exercised in full) from the Latest Practicable Date up to the Record Date:

<i>Authorised:</i>		<i>HK\$</i>
<u>10,000,000,000</u>	ordinary shares of HK\$0.01 each	<u>100,000,000.00</u>
<i>Fully paid or credited as fully paid Shares/Offer Shares in issue or to be issued:</i>		
1,821,135,954	Shares in issue and fully paid or credited as fully paid as at the Latest Practicable Date	18,211,359.54
29,820,000	Shares to be allotted and issued upon exercise of the Outstanding Options (other than the Director Options) in full	298,200.00
<u>1,850,955,954</u>	Offer Shares to be allotted and issued pursuant to the Open Offer	<u>18,509,559.54</u>
<u>3,701,911,908</u>	Shares in issue immediately upon completion of the Open Offer	<u>37,019,119.08</u>

As at the Latest Practicable Date, save for the Outstanding Options and the Convertible Note, the Company had no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

### Share Options

As at the Latest Practicable Date, there were 34,486,666 Outstanding Options granted by the Company under the Share Option Scheme to the eligible participants thereof at the consideration of HK\$1 per grant to each holder of the Outstanding Options. The holders of the Outstanding Options were Directors, employees and suppliers/consultants of the Group who were eligible participants of the Share Option Scheme. Among the Outstanding Options, 23,263,333 Shares were fall to be allotted and issued at the exercise price of HK\$0.283 per Share and 11,223,333 Shares were fall to be allotted and issued at the exercise price of HK\$0.213 per Share. The exercise prices of the Outstanding Options and/or the number of Shares fall to be allotted and issued upon full exercise thereof may be subject to further adjustment as a result of the Open Offer. Details of the Outstanding Options as at the Latest Practicable Date were as follows:

Options granted to	Date of grant	Subscription price per Share	Exercise period	Number of Shares issuable upon exercise in full of the Share Options
Mr. Cheung ( <i>Director</i> )	2 March 2011	HK\$0.283	2 March 2011 to 1 March 2016	4,666,666
Employees of the Group	2 March 2011	HK\$0.283	2 March 2011 to 1 March 2016	16,100,000
Suppliers/consultants of the Group	22 February 2012	HK\$0.213	22 February 2012 to 21 February 2017	13,720,000
Total:				<u><u>34,486,666</u></u>

Save for disclosed above, no capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date. All Shares and Offer Shares, when allotted and issued, shall rank *pari passu* with each other and in all respects with the existing Shares in all respects including rights to dividends, voting and return of capital. There is no arrangement under which future dividends will be waived or agreed to be waived.

The issued Shares are listed and traded on Stock Exchange. None of the securities of the Company is listed, or dealt in, on any other exchange, nor is any listing of or permission to deal in the securities of the Company being, or proposed to be, sought on any other stock exchange.

### 3. DISCLOSURE OF INTERESTS

#### (a) Directors' and chief executive's interests in the Company

As at Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors were as follows:

*Long positions in shares, underlying share and debentures of the Company or its associated corporations:*

Name of Director or chief executive of the Company	Capacity	Number of shares and underlying shares of the Company held	Subtotal	Approximate percentage of the total issued share capital of the Company
			number of shares and underlying shares of the Company held by each Director/ chief executive of the Company	
Dr. Cheung	beneficial owner	307,276,201 <i>(note i)</i>		
	interest of a controlled corporation	125,328,000 <i>(note ii)</i>	432,604,201	23.75% <i>(note iii)</i>
Mr. Cheung <i>(note iv)</i>	beneficial owner	7,466,666 <i>(note v)</i>	7,466,666	0.41% <i>(note vi)</i>

*Notes:*

- (i) Out of these 307,276,201 Shares/underlying shares of the Company, 145,985,401 of which are underlying shares, which represent the number of conversion shares that fall to be allotted and issued upon exercise of the conversion rights attached to the Convertible Note held by Dr. Cheung at the conversion price of HK\$0.137 per conversion share. Such conversion price is subject to adjustment upon occurrence of certain adjustment events including but not limited to the Open Offer.
- (ii) These 125,328,000 Shares are held by Biochem Investments which is wholly owned by Dr. Cheung. As such, Dr. Cheung is deemed to be interested in all of the 125,328,000 Shares held by Biochem Investments pursuant to Part XV of the SFO.
- (iii) The percentage holding is calculated based on the issued share capital of the Company as at the Latest Practicable Date comprising 1,821,135,954 Shares and has not taken into account the expected adjustment to the conversion price of the Convertible Note as a result of the Open Offer.
- (iv) Mr. Cheung is the elder brother of Dr. Cheung.
- (v) Out of these 7,466,666 Shares/underlying shares of the Company, 4,666,666 of which are underlying shares, which represent the number of Shares that fall to be allotted and issued upon exercise of the subscription rights attached to the Director Options held by Mr. Cheung at the exercise price of HK\$0.283 per Share. The exercise price and/or number of Share fall to be allotted and issued is subject to adjustment upon occurrence of certain adjustment events including but not limited to the Open Offer.
- (vi) The percentage holding is calculated based on the issued share capital of the Company as at the Latest Practicable Date comprising 1,821,135,954 Shares and has not taken into account the expected adjustment to the exercise price of the Director Options as a result of the Open Offer.

Save as disclosed above, as at the Latest Practicable date, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by director.

**(b) Substantial shareholders and other persons' interests in Shares and underlying Shares**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any other member of the Group:

*Long positions in shares, underlying share and debentures of the Company or its associated corporations:*

Name of holder of Shares/ underlying shares of the Company	Capacity	Number of shares and underlying shares of the Company held	Subtotal number of shares and underlying shares of the Company held	Approximate percentage of the total issued share capital of the Company <i>(note iii)</i>
Biochem Investment <i>(note i)</i>	beneficial owner	125,328,000	125,328,000	6.88%
Like Capital Limited <i>(note ii)</i>	beneficial owner	124,200,000	124,200,000	6.82%
Ethnocentric Investment Limited <i>(note ii)</i>	interest in a controlled corporation	124,200,000	124,200,000	6.82%
Capital VC Limited <i>(note ii)</i>	interest in controlled corporations	124,200,000	124,200,000	6.82%

*Notes:*

- (i) Biochem Investment is wholly owned by Dr. Cheung, the chairman of the Board and an executive Director. As such, Dr. Cheung is deemed to be interested in all of the 125,328,000 Shares held by Biochem Investments pursuant to Part XV of the SFO. Dr. Cheung is the sole director of Biochem Investments.
- (ii) Like Capital Limited is a company incorporated in Hong Kong with limited liability which is wholly owned by Ethnocentric Investment Limited, a company incorporated in the British Virgin Islands with limited liability, which is in turn wholly owned by Capital VC Limited, a company incorporated in the Cayman Islands and the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2324). As such, each of Ethnocentric Investment Limited and Capital VC Limited is deemed to be interested in all the 124,200,000 Shares held by Like Capital Limited pursuant to Part XV of the SFO.
- (iii) The percentage holding is calculated based on the issued share capital of the Company as at the Latest Practicable Date comprising 1,821,135,954 Shares.

Save as disclosed in the preceding paragraph and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

#### **4. DIRECTORS' CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contract expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### **5. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE COMPANY**

As at the Latest Practicable Date, none of the Directors has or had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to member of the Group since 31 March 2015, being the date to which the latest published audited accounts of the Group were made up.

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

## 6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or controlling shareholders or substantial shareholders of the Company or any of their respective close associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group nor does any of them has or may have any other conflicts of interest with the Group.

## 7. CORPORATE INFORMATION

### Board of Directors

#### *Executive Directors*

Dr. Cheung Yuk Shan, Shirley

Mr. Cheung Ka Heng, Frankie

Mr. Mui Wai Sum

#### *Independent non-executive Directors*

Mr. Hong Po Kui, Martin

Mr. Li Kuo Hsing

Ms. Hui Yat Lam

Ms. Chiu Kam Hing, Kathy

#### *Audit Committee*

Mr. Hong Po Kui, Martin (*Chairman*)

Mr. Li Kuo Hsing

Ms. Hui Yat Lam

Ms. Chiu Kam Hing, Kathy

#### *Remuneration Committee*

Mr. Hong Po Kui, Martin

Mr. Li Kuo Hsing (*Chairman*)

Ms. Hui Yat Lam

Ms. Chiu Kam Hing, Kathy

*Nomination Committee*Dr. Cheung Yuk Shan, Shirley (*Chairman*)

Mr. Cheung Ka Heng, Frankie

Mr. Mui Wai Sum

Mr. Hong Po Kui, Martin

Mr. Li Kuo Hsing

Ms. Hui Yat Lam

Ms. Chiu Kam Hing, Kathy

**Registered office**

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman, KY1-1111

Cayman Islands

**Head office and principle place  
of business in Hong Kong**

4th Floor

Sands Building

17 Hankow Road

Tsim Sha Tsui

Kowloon

Hong Kong

**Company secretary**Mr. Tse Ching Leung (*as associate member  
of Hong Kong Institute of Certified Public  
Accountants*)**Compliance officer**

Dr. Cheung Yuk Shan, Shirley

**Authorised representatives**

Dr. Cheung Yuk Shan, Shirley

Mr. Cheung Ka Heng, Frankie

**Auditor**Baker Tilly Hong Kong Limited  
*Certified Public Accountants*

2nd Floor

625 King's Road

North Point

Hong Kong



<b>Principal share registrar and transfer office</b>	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	Tricor Standard Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	Nanyang Commercial Bank, Yaumatei Branch 309 Nathan Road Kowloon Hong Kong  The Bank of East Asia Limited, iSQUARE Branch Shop UG01 iSQUARE 63 Nathan Road Tsim Sha Tsui, Kowloon Hong Kong

## 8. PARTIES INVOLVED IN THE OPEN OFFER

<b>The Company</b>	Sau San Tong Holdings Limited 4th Floor Sands Building 17 Hankow Road Tsim Sha Tsui Kowloon Hong Kong
<b>Underwriter</b>	CNI Securities Group Limited 10/F Sun's Group Centre 200 Gloucester Road Wanchai Hong Kong

<b>Financial adviser to the Company</b>	Akron Corporate Finance Limited 17AB Trust Tower 68 Johnston Road Wanchai Hong Kong
<b>Legal advisers to the Company</b>	<i>As to Hong Kong Law</i> Leung & Lau Units 7208-10, 72nd Floor The Center, 99 Queen's Road Central Central Hong Kong  <i>As to Cayman Islands Law</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place Central Hong Kong
<b>Reporting accountants</b>	Baker Tilly Hong Kong Limited <i>Certified Public Accountants</i> 2nd Floor 625 King's Road North Point Hong Kong
<b>Hong Kong branch share registrar and transfer office</b>	Tricor Standard Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong

**9. AUDIT COMMITTEE**

As at the Latest Practicable Date, the audit committee of the Board comprised four independent non-executive Directors, namely, Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing, Ms. Hui Yat Lam and Ms. Chiu Kam Hing, Kathy. The audit committee of the Board is chaired by Mr. Hong Po Kui, Martin. The background, directorship and past directorship (if any) of each of the members of the audit committee of the Board are set out in the section headed “12. Particulars of Directors and Senior Management” in this appendix III below.

The primary duties of the audit committee of the Company include, but are not limited to, the following: (a) to independently review and supervise the financial reporting process and internal control systems; (b) to ensure good communications among Directors and the Company’s auditor; (c) to recommend the appointment of external auditor on an annual basis and approval of the audit fees; (d) to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant; (e) to review quarterly, interim and annual results announcements as well as the financial statements prior to their approval by the Board; and (f) to provide advice on audit reports, accounting policies and comments to all Directors.

**10. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

**11. MATERIAL CONTRACTS**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within two years immediately preceding the Latest Practicable Date:

- (i) the conditional placing agreement dated 7 November 2013 entered into between the Company (as issuer) and Get Nice Securities Limited (as placing agent) in relation to the placing of 4% convertible notes of up to an aggregate principal amount of HK\$30,000,000 issued by the Company with an initial conversion price of HK\$0.33 per conversion share (subject to adjustments);

- (ii) the subscription agreement dated 7 November 2013 entered into between the Company and Dr. Cheung in relation to the subscription of the Convertible Note with an initial conversion price of HK\$0.33 per conversion share (subject to adjustments);
- (iii) the conditional subscription agreement dated 14 March 2014 entered into between the Company, Dr. Cheung and Biochem Investments in relation to the subscription at a price of HK\$0.45 per Share for such number of new Shares as is equal to the number of Shares held by Biochem Investments and successfully placed by Get Nice Securities Limited to not less than six places;
- (iv) the underwriting agreement dated 10 July 2014 entered into between the Company (as issuer) and Get Nice Securities Limited (as underwriter) in relation to the underwriting of not less than 676,793,400 rights shares and not more than 954,707,034 rights shares at the subscription price of HK\$0.10 per rights share;
- (v) the conditional placing agreement dated 17 December 2014 entered into between the Company (as issuer) and SBI China Capital Financial Services Limited (as placing agent) in relation to the placing for a maximum of 59,560,000 new Shares at a price of HK\$0.143 per Share;
- (vi) the conditional placing agreement dated 17 December 2014 entered into between the Company (as issuer) and SBI China Capital Financial Services Limited (as placing agent) in relation to the placing for a maximum of 357,000,000 new Shares at a price of HK\$0.143 per Share;
- (vii) the provisional sale and purchase agreement dated 8 May 2015 entered into between Sau San Tong Investment Holdings Limited, a wholly-owned subsidiary of the Company and Komda Holdings Limited for the acquisition of a property at a total consideration of HK\$45,576,000;
- (viii) the sale and purchase agreement dated 12 June 2015 entered into between Creative Time Investments Limited, a wholly-owned subsidiary of the Company (as purchaser) and an individual (who was an independent third party) (as vendor) for the acquisition of the entire issued share capital of I Pro Medical Skin Care Centre Limited and all debts owed by I Pro Medical Skin Care Centre Limited to the vendor for a total consideration of HK\$18,000,000; and

- (ix) the Underwriting Agreement and the supplemental agreement to the Underwriting Agreement dated 23 July 2015 to vary certain dates in the timetable of the Open Offer.

## 12. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT

### Executive Director

**Dr. CHEUNG Yuk Shan, Shirley (“Dr. Cheung”)**, aged 40, is the Chairman of the Board, the Chief Executive Officer and an executive Director of the Company. She is also the chairman of the Company’s nomination committee. Dr. Cheung founded the Group in 2000, and over the years, by virtue of her over 16 years’ expertise in beauty and slimming industry and profound understanding and unique vision on the market, she can fully capitalize on the trends and changes in the market and leading the Group successfully developed into a famous and reputable brand in Greater China. Dr. Cheung holds an honorary doctorate degree from Armstrong University, U.S.A. and an Executive Master degree of Business Administration from Peking University. Dr. Cheung is responsible for the overall stewardship of the Group which includes directions and formulating strategies. With her management style and innovative promotional strategies, she achieved various accomplishments and leading the Group to a new height. She also holds directorships in various subsidiaries of the Company. Dr. Cheung is the younger sister of Mr. Cheung Ka Heng, Frankie, an executive Director of the Company.

Dr. Cheung is an Honorary President of the Federation of Beauty Industry (H.K.) and she has been appointed as a member of the Beauty Industry Training Advisory Committee of Education Bureau – Qualifications Framework in 2006. In the past, Dr. Cheung was awarded as one of the “100 Outstanding Women Entrepreneurs in China” by the “Women Entrepreneurs’ Association of China”. She is also one of the few Hong Kong awardees and one of the youngest awarded entrepreneurs. Subsequently, Dr. Cheung has been awarded as one of the “World Outstanding Chinese”.

In respect of social charity, Dr. Cheung is an Honorary Consultant of The Against Elderly Abuse of Hong Kong. Dr. Cheung has founded the Shirley Cheung Charity Foundation, which is granted as an approved charitable organization. As a Chairman of the Foundation, she leads the team to serve and feedback to the community in every minute and every moment.

**Mr. CHEUNG Ka Heng, Frankie (“Mr. Cheung”)**, aged 42, is an executive Director. He is responsible for the business development and administration of the Group. He is also a member of the Company’s nomination committee and also holds

directorships in various subsidiaries of the Company. Mr. Cheung is an Honorary General Committee Member of China Enterprise Reputation and Credibility Association (Overseas). Mr. Cheung holds a master degree in business administration from Americus University of the United States and in 2014, he completed the “Global Executive Programme” in Guanghai School of Management, Peking University.

Prior to joining the Group in June 2002, he was the director of Vicorp Credit Services Limited, a company which provides credit information, commencing from September 1999. He has accumulated over 10 years’ experience in corporate finance and lending industry. Mr. Cheung was previously an executive director of Chevalier Pacific Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. Cheung is the elder brother of Dr. Cheung Yuk Shan, Shirley, the Chairman of the Board, the Chief Executive Officer and an Executive Director of the Company.

**Mr. MUI Wai Sum (“Mr. Mui”)**, aged 27, is an executive Director. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Mui holds an Honour Degree in General Finance from The Chinese University of Hong Kong. Mr. Mui had worked for an international accounting firm. He has over 3 years of experience in corporate finance and corporate restructuring. Mr. Mui is an executive director of Sunrise (China) Technology Group Limited (stock code: 8226), a company listed on the Growth Enterprise Market of the Stock Exchange.

#### **Independent non-executive Directors**

**Mr. HONG Po Kui, Martin (“Mr. Hong”)**, aged 65, is an independent non-executive Director and joined the Group in June 2002. He is responsible for giving advices to the Board and shareholders of the Company. He is also the chairman of the Company’s audit committee, and a member of the Company’s remuneration committee and nomination committee. Mr. Hong is a practicing solicitor and a notary public in Hong Kong. He has been practicing as a solicitor of the High Court of Hong Kong for over 35 years and is the senior partner of Messrs Lau, Chan & Ko, Solicitors. He holds a bachelor degree in science from University of New South Wales. Mr. Hong is an independent non-executive director of Modern Beauty Salon Holdings Limited (stock code: 919), a company listed on the Main Board of the Stock Exchange.

**Mr. LI Kuo Hsing (“Mr. Li”)**, aged 56, is an independent non-executive Director and joined the Group in June 2002. He is also the chairman of the Company’s remuneration committee, and a member of the Company’s audit committee and nomination committee. Mr. Li is the Vice Chairman of the Federation of Motion Film Producers of Hong Kong Limited since 1998 and appointed Member of the Election Committee for the Performing Arts sub-sector of the Legislative Council Election. Mr. Li is the founder and chairman of Mei Ah Entertainment Group Limited (stock code: 391), a company listed on the Main Board of the Stock Exchange.

**Ms. HUI Yat Lam (“Ms. Hui”)**, aged 41, is an independent non-executive Director and joined the Group in March 2008. She is also a member of the Company’s audit committee, remuneration committee and nomination committee. Ms. Hui is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation of Institute of Hong Kong. Ms. Hui has over 20 years of experience in professional auditing, accounting and financial management related experience from international accounting firm and listed group.

**Cavaliere Ms. CHIU Kam Hing Kathy (“Ms. Chiu”), JP**, aged 66, joined the Group in October 2013 as an independent non-executive Director, and also as a member of the audit committee, the remuneration committee and the nomination committee of the Company. Ms. Chiu has over 29 years of banking experience in Canada and the Asia Pacific Region. She was Senior Vice President at the Republic National Bank of New York for almost thirteen years and was responsible for the management and investment of third party client’s funds. Ms. Chiu is an associate and a fellow of the Institute of Canadian Bankers. Ms. Chiu was appointed as a Justice of the Peace by the Hong Kong Government in 1992 and as Cavaliere by the Italian Government in 1999 and she is Montblanc Outstanding Business Lady of the year 2002 in Hong Kong.

Ms. Chiu is Chairman of Prime Investments Group Limited and also an independent non-executive director of National Agricultural Holdings Limited (formerly known as “Qianlong Technology International Holdings Limited”), a company listed on the Main Board of the Stock Exchange. Ms. Chiu is licensed to carry out asset management business under Type 9 regulated activity under the SFO. Ms. Chiu was previously the independent non-executive director of Asia Coal Limited, a company listed on the Main Board of the Stock Exchange.

**Senior Management**

**Mr. TSE Ching Leung** (“**Mr. Tse**”), aged 42, is the financial controller, qualified accountant and company secretary of the Group. Mr. Tse is responsible for overseeing the accounting and financial management and company secretarial functions of the Group. He is an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Tse joined the Group in February 2008 and has accumulated over 20 years of accounting and auditing experience.

**13. MISCELLANEOUS**

- (i) The business address of all Directors and authorized representatives of the Company is 4th Floor, Sands Building, 17 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong.
- (ii) As at the Latest Practicable Date, there was no restriction affecting the remittance of profit or repatriation of capital of the Company into Hong Kong from outside Hong Kong.
- (iii) The English text of this circular shall prevail over the Chinese text.

**14. EXPERT AND CONSENT**

The following is the qualification of the expert who has given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Baker Tilly Hong Kong Limited (“ <b>Baker Tilly</b> ”)	Certified Public Accountants
Gram Capital Limited	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

Each of Baker Tilly and Gram Capital has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its report and references to its name in the form and context in which it appear.



Each of Baker Tilly and Gram Capital does not have any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

Each of Baker Tilly and Gram Capital does not and did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2015, being the date to which the latest published audited accounts of the Group were made up.

#### **15. EXPENSES**

The expenses in connection with the Open Offer, including financial advisory fees, underwriting commission, printing, registration, translation, legal and accountancy charges and other related expenses, are estimated to amount to approximately HK\$7.2 million and are payable by the Company.

#### **16. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company at 4th Floor, Sands Building, 17 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong during normal business hours on any weekday other than public holidays from the date of this circular, up to and including the Latest Acceptance Time:

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix;
- (iii) the annual reports of the Company for each of the two financial years ended 31 March 2014 and 2015;
- (iv) the accountants’ report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;
- (v) the written consent of the expert referred to in the section headed “Expert and Consent” in this appendix; and
- (vi) the circular.

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## NOTICE OF EGM

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### SAU SAN TONG HOLDINGS LIMITED

修身堂控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8200)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Sau San Tong Holdings Limited (the “**Company**”) will be held at 4th Floor, Sands Building, 17 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong at 11:00 a.m. on Tuesday, 18 August 2015 for the purpose of considering and, if thought fit, passing with or without amendments the following resolutions which will be proposed as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. “**THAT**

- (i) the authorised share capital of the Company be increased from HK\$20,000,000 (divided into 2,000,000,000 ordinary shares of nominal value of HK\$0.01 each (“**Shares**”)) to HK\$100,000,000 (divided into 10,000,000,000 Shares) by the creation of 8,000,000,000 additional Shares, and that each such new Share, upon issue, shall rank *pari passu* in all respects with the existing issued Shares and have rights and privileges and be subject to the restrictions contained in the memorandum and articles of association of the Company (“**Increase in the Authorised Share Capital**”); and
- (ii) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute and deliver all such documents, including under the seal of the Company, where applicable, as he/she/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of the Increase in the Authorised Share Capital.”

\* for identification purpose only

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## NOTICE OF EGM

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2. “**THAT** subject to and conditional upon (i) The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, all the Offer Shares (as defined below) by no later than the Prospectus Posting Date (as defined in the circular of the Company dated 31 July 2015 (“**Circular**”)); (ii) the filing and registration of all relevant documents with the Registrar of Companies in Hong Kong by no later than the Prospectus Posting Date (as defined in the Circular); and (iii) the Underwriting Agreement (as defined below) not being terminated by the Underwriter (as defined in the Circular) pursuant to the terms thereof on or before the Latest Time for Termination (as defined in the Circular):
- (a) the allotment and issue of not less than 1,821,135,954 Shares and not more than 1,850,955,954 Shares (“**Offer Shares**”) by way of open offer (“**Open Offer**”) at a subscription price of HK\$0.10 per Offer Share on the basis of one (1) Offer Share for every one (1) Share to the holders of the Shares (“**Qualifying Shareholders**”) whose names appear on the register of members of the Company on Friday, 28 August 2015 (or such other date as the Underwriter (as defined below) may agree with the Company) (“**Record Date**”) other than those shareholders of the Company whose names appear on the register of members of the Company at the close of business on the Record Date and whose addresses as shown on such register are outside Hong Kong whom the directors of the Company, based on legal advice provided by the Company’s legal advisers, consider it necessary or expedient not to offer the Offer Shares to such shareholders on account either of legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory body or stock exchange in those places (“**Excluded Shareholders**”) as described in further detail in the Circular and on and subject to such terms and conditions as may be determined by the directors of the Company and otherwise pursuant to and subject to the fulfilment of the conditions set out in the underwriting agreement (“**Underwriting Agreement**” including all supplemental agreement(s) relating thereto) (a copy of which has been produced to this meeting marked “**A**” and signed by the chairman of this meeting for the purpose of identification) dated 7 July 2015 (as supplemented on 23 July 2015) and made between the Company and CNI Securities Group Limited as underwriter (“**Underwriter**”), and the transactions contemplated thereunder, be and are hereby approved;
  - (b) the board of directors of the Company (“**Board**”) or a committee thereof be and is/are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the Qualifying

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## NOTICE OF EGM

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Shareholders and, in particular, the Board may make such exclusions or other arrangement in relation to the Excluded Shareholders as it may deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirement of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong;

- (c) the entering into the Underwriting Agreement by the Company be and is hereby approved, confirmed and ratified in all respects and the performance of the transactions contemplated thereunder by the Company (including but not limited to the arrangements for taking up of the underwritten Offer Shares, if any, by the Underwriter) be and are hereby approved, confirmed and ratified; and
- (d) any one or more of the directors of the Company be and is/are hereby authorised to sign and execute and deliver any such documents and do all such acts and things incidental to the Open Offer as he/she/they may consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder or in this resolution.”

On behalf of the Board  
**SAU SAN TONG HOLDINGS LIMITED**  
**Cheung Yuk Shan, Shirley**  
*Chairman*

Hong Kong, 31 July 2015

*Registered Office:*

Cricket Square, Hutchins Drive  
P.O. Box 2681, Grand Cayman  
KY1-1111, Cayman Islands

*Head office and principal place of business in Hong Kong:*

4th Floor  
Sands Building  
17 Hankow Road  
Tsim Sha Tsui  
Kowloon  
Hong Kong

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## NOTICE OF EGM

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*Notes:*

1. A form of proxy to be used for the extraordinary general meeting is enclosed with the Circular.
2. Any shareholder of the Company entitled to attend and vote at the extraordinary general meeting of the Company shall be entitled to appoint another person (who must be an individual) as his/her/its proxy to attend and vote instead of him/her/it and a proxy so appointed shall have the same right as the shareholder to speak at the extraordinary general meeting. On a poll votes may be given either personally or by proxy. A proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares of the Company may appoint more than one proxy to attend in his/her/its stead at any one general meeting (or at any one class meeting).
3. The form of proxy shall be in writing under the hand of the appointor or of his attorney 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 duly authorised to sign the same.
4. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered at the Hong Kong branch registrar of the Company, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the extraordinary general meeting at which the person named in the form of proxy proposes to vote. Delivery of a form of proxy shall not preclude a shareholder from attending and voting in person at the extraordinary general meeting and, in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such persons may vote at the extraordinary general meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the extraordinary general meeting personally or by proxy, that one of the said persons so present being the most senior shall alone be entitled to vote in respect of the relevant joint holding to the exclusion of the votes of the other joint registered holders and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of the relevant joint holding.