

THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this Prospectus or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

A copy of the Prospectus Documents (as defined herein), having attached thereto the written consent referred to under the paragraph headed "Expert and Consent" in Appendix IV to this Prospectus has been registered with the Registrar of Companies in Hong Kong pursuant to section 342C of the Companies Ordinance. The SFC (as defined herein) and the Registrar of Companies in Hong Kong take no responsibility as to the contents of any of the documents referred to above.

If you have sold or transferred all your Shares in SAU SAN TONG HOLDINGS LIMITED (the "Company"), you should at once hand this Prospectus, together with the accompanying Application Form and Excess Application Form, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on GEM (as defined herein) as well as compliance with the stock admission requirements of HKSCC (as defined herein), the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS (as defined herein) with effect from the respective commencement date of dealings in the Offer Shares or such other dates as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.



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)

OPEN OFFER OF 4,799,400,000 OFFER SHARES ON THE BASIS OF FIVE OFFER SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE

Financial Adviser to Sau San Tong Holdings Limited



KINGSTON CORPORATE FINANCE LIMITED

Underwriter to the Open Offer



KINGSTON SECURITIES LIMITED

Terms used in this cover page have the same meanings as defined in this Prospectus.

The Latest Time for Acceptance of and payment for the Offer Shares is 4:00 p.m. on Wednesday, 16 September 2009.

The Underwriting Agreement contains provisions granting Kingston Securities, by notice in writing, the right to terminate Kingston Securities' obligations thereunder on the occurrence of certain events. Kingston Securities may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination: (1) in the absolute opinion of Kingston Securities, the success of the Open Offer would be materially and adversely affected by: (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of Kingston Securities materially and adversely affect the business or the financial or trading position or prospects 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 thereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis 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 absolute opinion of Kingston Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of Kingston Securities is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or (3) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of Kingston Securities will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any member of the Group or the destruction of any material asset of the Group; or (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or (5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or (6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of Kingston Securities, a material omission in the context of the Open Offer; or (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement, this Prospectus or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or (8) the Prospectus when published contains information (either as to business prospects or 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 absolute opinion of Kingston Securities be material to the Group as a whole upon completion of the Open Offer and is likely to affect materially and adversely the success of the Open Offer. Kingston Securities shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

Kingston Securities shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination: (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of Kingston Securities; or (2) any event coming to the knowledge of Kingston Securities which would have rendered any untrue or incorrect in any material respect.

Any such notice shall be served by Kingston Securities prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

If the Underwriting Agreement is terminated by Kingston Securities on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.

The Shares have been dealt in on an ex-entitlement basis from Tuesday, 25 August 2009 and the Open Offer is conditional. If the conditions of the Open Offer are not satisfied by the relevant date(s) or, if no such date is specified, the Latest Time for Termination or such later date or dates as Kingston Securities may agree with the Company in writing, or the Underwriting Agreement is terminated by Kingston Securities, the Open Offer will not proceed and will lapse. Any persons contemplating buying or selling Shares from the date of the Announcement up to the date on which all the conditions of the Open Offer are satisfied bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares are recommended to consult their own professional advisers.

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a high 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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EXPECTED TIMETABLE

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

2009

Record Date	Monday, 31 August
Register of members of the Company re-opens	Tuesday, 1 September
Despatch of the Prospectus Documents	Tuesday, 1 September
Latest time for acceptance of and payment for Offer Shares	4:00 p.m. on Wednesday, 16 September
Latest time for the Open Offer to become unconditional	4:00 p.m. on Monday, 21 September
Announcement of results of acceptance of the Open Offer to be published on the Stock Exchange website	Tuesday, 22 September
Despatch of refund cheques in respect of unsuccessful applications for the Offer Shares	Wednesday, 23 September
Despatch of the share certificates for the Offer Shares	Wednesday, 23 September
Commencement of dealings in Offer Shares.	Friday, 25 September

All times stated above refer to Hong Kong times. Dates stated in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable for the Open Offer will be announced as appropriate.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR OFFER SHARES

The latest time for acceptance of and payment for Offer Shares will not take place if there is:

- (a) a tropical cyclone warning signal number 8 or above, or
- (b) 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 Wednesday, 16 September 2009. Instead the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day;
 - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Wednesday, 16 September 2009. Instead the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following 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 of and payment for the Offer Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected timetable” may be affected. An announcement will be made by the Company in such event as soon as practicable.

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“Announcement”	the announcement of the Company dated 23 July 2009 relating to, among other things, the proposed Capital Increase and the Open Offer
“Application Form(s)”	the application form(s) for use by the Qualifying Shareholders to apply for the Offer Shares in relation to their respective entitlement under the Open Offer
“associates”	has the meaning ascribed to this term under the GEM Listing Rules
“Board”	the board of Directors
“Branch Registrar”	Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
“Business Day”	means any day (excluding a Saturday) on which banks generally are open for business in Hong Kong during normal working hours
“Capital Increase”	the proposed increase in authorised share capital of the Company from HK\$15,000,000 divided into 1,500,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Clarification Announcement”	the announcement of the Company dated 30 July 2009 relating to, among other things, the revised terms of the Underwriting Agreement
“Company”	Sau San Tong Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Directors”	the directors of the Company

DEFINITIONS

“Dr. Cheung”	Dr. Cheung Yuk Shan, Shirley, the chairman of the Company
“Dr. Cheung Undertaking”	the irrevocable and unconditional undertaking given by Dr. Cheung in favour of the Company and the Underwriter, further details of which are set out in the paragraph headed “Undertaking given by Dr. Cheung” in this Prospectus
“EGM”	the extraordinary general meeting of the Company held at 12th Floor, Prestige Tower, 23-25 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong at 10:50 a.m. on 31 August 2009 to consider, among other things, the Open Offer
“Excess Application Form(s)”	the application form for use by the Qualifying Shareholders to apply for the excess Offer Shares under the Open Offer
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Hero”	GEM Hero Investments Limited, a company incorporated in the British Virgin Islands holding 144,000,000 Shares as at the Latest Practicable Date and is wholly beneficially owned by Mr. Chung Kwok Cheung
“GEM Hero Undertaking”	the irrevocable and unconditional undertaking given by GEM Hero in favour of the Company and the Underwriter, further details of which are set out in the paragraph headed “Undertaking given by GEM Hero” in this Prospectus
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising three independent non-executive Directors formed to give advice to the Independent Shareholders in respect of the Open Offer

DEFINITIONS

“Kingston Securities” or “Underwriter”	Kingston Securities Limited, a licensed corporation to carry on business in Type 1 (dealing in securities) regulated activity under the SFO
“Last Trading Date”	21 July 2009, being the last trading day of the Shares prior to the release of the Announcement
“Latest Acceptance Date”	being 4:00 p.m. on 16 September 2009 or such other date and/or time as the Underwriter and the Company may agree as the latest date for acceptance and payment in respect of provisional entitlement under the Open Offer
“Latest Lodging Date”	being 4:30 p.m. on 26 August 2009 or such other date and/or time as the Underwriter and the Company may agree as the latest time for lodging transfer of Shares in order to be qualified for the Open Offer
“Latest Practicable Date”	27 August 2009, being the latest practicable date prior to the printing of this Prospectus for inclusion of certain information in this Prospectus
“Latest Time for Termination”	being 4:00 p.m. on the third Business Day after the Latest Acceptance Date or such later time or date as may be agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement
“Offer Share(s)”	4,799,400,000 new Shares to be allotted and issued pursuant to the Open Offer
“Open Offer”	the proposed open offer on the basis of five (5) Offer Shares for every one (1) Share to the Qualifying Shareholders pursuant to the terms and conditions of the Underwriting Agreement
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer

DEFINITIONS

“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) as shown on such register is(are) outside Hong Kong
“PRC”	the People’s Republic of China
“Prohibited Shareholders”	Overseas Shareholders, to whom the Directors, based on legal opinions provided by legal advisers and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Offer Shares
“Prospectus”	this prospectus issued by the Company in relation to the Open Offer
“Prospectus Documents”	this Prospectus, the Application Form(s) and the Excess Application Form(s)
“Prospectus Posting Date”	1 September 2009, being the date of despatch of the Prospectus Documents or the Prospectus only (as the case may be) to the Shareholders
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Prohibited Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	31 August 2009, being the date by reference to which entitlements to the Open Offer were determined
“Registrar”	Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, being the Company’s Hong Kong branch share registrar
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option(s)”	the share option(s) granted under the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 4 November 2003
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	subscription price of HK\$0.01 per Offer Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement dated 21 July 2009 entered into among the Company and the Underwriter in relation to the Open Offer as varied and supplemented by a supplemental agreement dated 30 July 2009 entered into between the Company and the Underwriter
“Underwritten Shares”	all the Offer Shares other than the 1,966,350,000 Offer Shares irrevocably undertaken to be subscribed or procured to be subscribed by Dr. Cheung and GEM Hero as referred to in the Dr. Cheung Undertaking and the GEM Hero Undertaking
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



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 (*Chairman*)

Mr. Cheung Ka Heng, Frankie

Independent Non-executive Directors:

Mr. Hong Po Kui, Martin

Mr. Li Kuo Hsing

Ms. Hui Yat Lam

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:*

12th Floor

Prestige Tower

Nos. 23-25 Nathan Road

Tsim Sha Tsui

Kowloon

Hong Kong

1 September 2009

*To the Qualifying Shareholders and, for information only,
the Prohibited Shareholders*

Dear Sirs or Madams,

**OPEN OFFER OF 4,799,400,000 OFFER SHARES
ON THE BASIS OF FIVE OFFER SHARES FOR EVERY ONE SHARE
HELD ON THE RECORD DATE**

1. INTRODUCTION

Reference is made to the Announcement and the Clarification Announcement in relation to the Open Offer. The Company proposed to raise approximately HK\$48.0 million before expenses by way of an open offer of 4,799,400,000 Offer Shares at the Subscription Price of HK\$0.01 per Offer Share on the basis of five (5) Offer Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date and payable in full upon acceptance.

* For identification purposes only

LETTER FROM THE BOARD

On 31 August 2009, the resolutions in respect of the Capital Increase and the Open Offer were duly passed at the EGM.

The purpose of this Prospectus is to provide you with further information regarding, among other things, the details of the Open Offer including information on procedures for application and payment and certain financial information and other information in respect of the Group.

2. PROPOSED OPEN OFFER

The Company and the Underwriter entered into an underwriting agreement on 21 July 2009 which was varied and supplemented by a supplemental agreement dated 30 July 2009 in respect of the Open Offer. Details of the Open Offer are set out below:

Issue Statistics

Basis of the Open Offer:	Five (5) Offer Shares for every one (1) Share held on the Record Date
Subscription Price:	HK\$0.01 per Offer Share
Number of Shares in issue as at the Latest Practicable Date:	959,880,000 Shares
Number of Offer Shares:	4,799,400,000 Offer Shares
Number of Offer Shares undertaken to be taken up by Dr. Cheung:	1,246,350,000 Offer Shares
Number of Offer Shares undertaken to be taken up by GEM Hero:	720,000,000 Offer Shares
Number of Offer Shares underwritten by the Underwriter:	2,833,050,000 Offer Shares, being the number of the aggregate Offer Shares less the number of Offer Shares undertaken to be taken up by Dr. Cheung under the Dr. Cheung Undertaking and the number of Offer Shares undertaken to be taken up by GEM Hero under the GEM Hero Undertaking

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company has 959,880,000 Shares in issue. Given that the register of the members has been closed from 27 August 2009 to 31 August 2009 and no further Shares were issued during the book close period, the total number of issued Shares on the Record Date will be the same as the Latest Practicable Date. As such, on the basis of five (5) Offer Shares for every one (1) Share held on the Record Date, 4,799,400,000 Offer Shares will be issued by the Company and 2,833,050,000 Offer Shares will be underwritten by the Underwriter pursuant to the Underwriting Agreement.

As at the Latest Practicable Date, the Company has 24,690,000 Share Options outstanding. The Share Options entitle the holders thereof to subscribe for an aggregate of 24,690,000 new Shares at various exercise prices ranging from HK\$0.487 per Share to HK\$0.534 per Share (all subject to adjustments).

Save as disclosed above, the Company has no other options, warrants or other securities convertible into or giving rights to the holders thereof to subscribe for the Shares as at the Latest Practicable Date.

Subscription Price

The Subscription Price for the Offer Shares is HK\$0.01 per Offer Share, payable in full when a Qualifying Shareholder accepts his/her/its assured entitlement under the Open Offer.

The Subscription Price represents:

- (i) a discount of approximately 83.87% to the closing price per Share of HK\$0.0620 as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 83.44% to the average of the closing prices per Share of HK\$0.0604 for the last 5 trading days as quoted on the Stock Exchange up to and including the Last Trading Date;
- (iii) a discount of approximately 83.84% to the average of the closing prices per Share of HK\$0.0619 for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Date;
- (iv) a discount of approximately 46.52% to the theoretical ex-entitlement price of HK\$0.0187 per Share calculated based on the closing price per Share as quoted on the Stock Exchange on the Last Trading Date; and
- (v) a discount of approximately 75.61% to the closing price of HK\$0.041 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares and the financial requirements of the Company. The Directors consider that the discount would encourage Shareholders to participate in the Open Offer and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the Subscription Price is fair and reasonable and in the interest of the Group and the Shareholders as a whole.

Conditions of the Open Offer

The Open Offer is conditional upon the following conditions being fulfilled:

- (1) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies Ordinance not later than the Prospectus Posting Date;
- (2) the obtaining of the approval of the Independent Shareholders by way of poll at the EGM for, among others, the Open Offer;
- (3) the obtaining of the approval of the Shareholders by way of poll at the EGM for the Capital Increase;
- (4) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus and a letter in the agreed form to the Prohibited Shareholders, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;
- (5) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares by no later than the first day of their dealings;
- (6) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement;

LETTER FROM THE BOARD

- (7) the obligations of the Underwriter becoming unconditional and the Underwriting Agreement is not terminated in accordance with its terms;
- (8) compliance with and performance of all undertakings and obligations of Dr. Cheung under the Dr. Cheung Undertaking;
- (9) compliance with and performance of all undertakings and obligations of GEM Hero under the GEM Hero Undertaking; and
- (10) the entering into of binding agreements by the Underwriter with certain placees and/or sub-underwriters, which shall be independent third parties of the Company and its connected persons within the meaning of the GEM Listing Rules, for placing and/or sub-underwriting the Offer Shares, such that
 - (a) none of the placees and/or sub-underwriters and their respective parties acting in concert (having the meaning under the Takeovers Code) shall be interested in 10% or more of the issued share capital of the Company as enlarged by the Open Offer, and
 - (b) the Underwriter will not be beneficially interested in 30% or more of the issued share capital of the Company as enlarged by the Open Offer.

The conditions precedents are incapable of being waived. If the conditions precedents are not satisfied in whole or in part by the Company by the Latest Time for Termination or such other date as the Company and the Underwriter may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

Status of the Offer Shares

The Offer Shares, when allotted, issued and fully-paid, will rank *pari passu* with the Shares in issue on the date of allotment and issue of the Offer Shares in all respects. Holders of such Offer Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares. Dealings in fully-paid Offer Shares will be subject to the payment of stamp duty in Hong Kong.

LETTER FROM THE BOARD

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to Qualifying Shareholders and (ii) this Prospectus, for information only, with the Overseas Letter to the Prohibited Shareholders.

To qualify for the Open Offer, the Shareholder must be registered as a member of the Company on the Record Date and not be a Prohibited Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Registrar, Tricor Standard Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on the Latest Lodging Date.

Closure of register of members

The Company's register of members was closed from Thursday, 27 August 2009 to Monday, 31 August 2009 (both dates inclusive), for the purpose of, among other things, establishing entitlements to the Open Offer. No transfer of Shares was registered during this period.

No Overseas Shareholders

As at the close of business on the Record Date, there was no Shareholders whose address on the register of members of the Company was in a place outside Hong Kong. Therefore, all Shareholders are eligible to take part in the Open Offer. The Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong.

The Company will send the Overseas Letter together with this Prospectus, for information only, to the Prohibited Shareholders (if any) and will not send any Application Form under the Open Offer to the Prohibited Shareholders.

Fractional entitlement to the Offer Shares

Given the Open Offer is made on the basis of five (5) Offer Shares for every one (1) Share held on the Record Date, there will be no fraction of Offer Shares.

LETTER FROM THE BOARD

Share certificates for the fully-paid Offer Shares and refund cheques

Subject to the fulfilment of the conditions of the Open Offer, share certificates for all fully-paid Offer Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for (where appropriate) and fully paid for on acceptance on or before 23 September 2009 at their own risk.

Each Qualifying Shareholder who has applied and paid for the Offer Shares and the excess Offer Shares will receive one share certificate for all the entitlements to the Offer Shares and the excess Offer Shares in fully paid form issued in his/her/its favour.

Refund cheques in respect of wholly or partially unsuccessful applications for excess offer shares are also expected to be posted to the excess applicants on or before 23 September 2009 at their own risk.

Application for listing of the Offer Shares on the Stock Exchange

The Company has applied to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the fully paid Offer Shares. The Offer Shares are expected to continue to be traded in the existing board lot of 10,000 Shares. Dealing in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty in Hong Kong, Stock Exchange trading fees, SFC transaction levy and other applicable fees and charges in Hong Kong.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, 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. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangements will affect their rights and interests.

Undertaking given by Dr. Cheung

Dr. Cheung, who is beneficially interested in 249,270,000 Shares, representing approximately 26.0% of the total issued share capital of the Company as at the Latest Practicable Date, has irrevocably and unconditionally undertaken to the Company and the Underwriter, among other matters, that: (i) the Shares beneficially

LETTER FROM THE BOARD

owned by her will remain registered in the same name or the name of her nominee(s) from the date of the Dr. Cheung Undertaking up to the close of business on the Record Date; (ii) she will subscribe or procure the subscription in full for her entitlements under the Open Offer pursuant to the terms of the Open Offer; (iii) she will not apply any additional excess Offer Share under the excess application arrangement of the Open Offer; (iv) she will not exercise any of the 5,000,000 Share Options held by her on or before the Record Date; and (v) she will not and will procure that (so far as applicable and reasonably possible) company(ies) controlled by her will not, during the period from immediately after the execution of the Underwriting Agreement and prior to or on the date the Underwriting Agreement becoming unconditional, dispose of or transfer the beneficial interests in any of the Shares beneficially owned by her.

Undertaking given by GEM Hero

GEM Hero, who is beneficially interested in 144,000,000 Shares, representing approximately 15.0% of the total issued share capital of the Company as at the Latest Practicable Date, has irrevocably and unconditionally undertaken to the Company and the Underwriter, among other matters, that: (i) the Shares beneficially owned by it will remain registered in the same name or the name of its nominee(s) from the date of the GEM Hero Undertaking up to the close of business on the Record Date; (ii) it will subscribe or procure the subscription in full for its entitlements under the Open Offer pursuant to the terms of the Open Offer; and (iii) it will not and will procure that (so far as applicable and reasonably possible) company(ies) controlled by it will not, during the period from immediately after the execution of the Underwriting Agreement and prior to or on the date the Underwriting Agreement becoming unconditional, dispose of or transfer the beneficial interests in any of the Shares beneficially owned by it.

PROCEDURE FOR APPLICATION

Application for Offer Shares

The Application Form is enclosed with this Prospectus which entitles the Qualifying Shareholders to whom it is addressed to apply for the number of Offer Shares as shown therein subject to payment in full by the Latest Time for Acceptance. Qualifying Shareholders should note that they may apply for any number of Offer Shares only up to the number set out in the Application Form.

If Qualifying Shareholders wish to apply for all the Offer Shares offered to them as specified in the Application Form or wish to apply for any number less than their entitlements under the Open Offer, they must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with remittance for the

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full amount payable in respect of such number of Offer Shares they have applied for with Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 16 September 2009. All remittance(s) must be made in Hong Kong dollars and cheques must be drawn on an account with, or bankers' cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "Sau San Tong Holdings Limited — Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the duly completed and signed Application Form, together with the appropriate remittance, have been lodged with, Company's Hong Kong branch share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 16 September 2009, the entitlements of the respective Qualifying Shareholders under the Open Offer and all rights in relation thereto shall be deemed to have been declined and will be cancelled.

Application for excess Offer Shares

Qualifying Shareholders may apply, by way of excess application, for any Offer Shares entitled by the Qualifying Shareholders but not validly applied for by them, any Offer Shares arising from the aggregation of fractional entitlements, if any, and any Offer Shares not offered to the Prohibited Shareholders, if any.

The Directors will allocate the excess Offer Shares on a fair and equity basis, on a pro-rata basis to the excess Offer Shares applied for by the Qualifying Shareholders. However, no preference will be given to topping-up odd lots to whole board lots.

The Shareholders with the Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholders according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of excess Offer Shares will not be extended to beneficial owners individually. The Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Shareholders or potential investors should note that the number of excess Offer Shares which may be allocated to them may be different where they make applications for excess Offer Shares by different means, such as making applications on their own names rather than through nominees who also hold Shares for other Shareholders/investors. Shareholders and investors should consult their professional advisers if they are in any doubt as to whether they should register their shareholding in their own names and apply for the excess Offer Shares themselves.

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Qualifying Shareholders may apply (using forms of Excess Application Form(s)) for any entitlement of the Prohibited Shareholders and any Offer Shares not taken up by the Qualifying Shareholders during the offer period commencing from Tuesday, 1 September 2009 to Wednesday, 16 September 2009. Any Offer Shares that is not taken up by Qualifying Shareholders will be underwritten by the Underwriter pursuant to the Underwriting Agreement.

Application for excess Offer Shares should be made by completing the Excess Application Form enclosed with this Prospectus and lodging the same with a separate remittance for the full amount payable in respect of the excess Offer Shares being applied for in accordance with the instructions printed thereon, with Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 16 September 2009. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, licensed banks in Hong Kong and made payable to "Sau San Tong Holdings Limited — Excess Application Account" and crossed "Account Payee Only". The share registrar of the Company and transfer office will notify the Qualifying Shareholders of any allotment of the excess Offer Shares made to them.

It should be noted that unless the duly completed and signed Excess Application Form, together with the appropriate remittance, have been lodged with the Company's Hong Kong branch share registrar, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 16 September 2009, the Excess Application Form is liable to be rejected.

All cheques or banker's cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any Application Form or Excess Application Form in respect of which the cheque or banker's cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant entitlements of the Qualifying Shareholders under the Open Offer will be deemed to have been declined and will be cancelled.

In the event that applications are received for the Offer Shares in excess of assured entitlements, the Directors will allocate the Offer Shares in excess of assured entitlements at their discretion, but on a fair and reasonable basis based on the principles as stated in the above.

Both Application Form and Excess Application Form are for the use by the person(s) named therein only and are not transferable.

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If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before the Latest Time for Termination and/or if any of the conditions to which the Open Offer is subject are not fulfilled or waived, the application monies will be refunded, without interest, by sending cheques made out to the applicants (or in the case of joint applicants, to the first named applicant) and crossed “Account Payee Only”, through ordinary post at the risk of the applicants to the address specified in the register of members of the Company on or before 23 September 2009.

No receipt will be issued in respect of any application monies received.

UNDERWRITING AGREEMENT

Date: 21 July 2009 as varied and supplemented by a supplemental agreement dated 30 July 2009

Underwriter: Kingston Securities Limited

Basis of the Open Offer: Five (5) Offer Shares for every one (1) Share held on the Record Date

Subscription Price: HK\$0.01 per Offer Share payable in full upon acceptance

Number of Offer Shares underwritten by the Underwriter: 2,833,050,000 Offer Shares, being the number of the aggregate Offer Shares less the number of Offer Shares undertaken to be taken up by Dr. Cheung under the Dr. Cheung Undertaking and the number of Offer Shares undertaken to be taken up by GEM Hero under the GEM Hero Undertaking

The Underwriter shall be entitled to the underwriting commission of 2.5% of the aggregate Subscription Price in respect of the maximum number of Offer Shares underwritten by the Underwriter. The Company will reimburse the Underwriter reasonable legal fees and other reasonable out-of-pocket expenses of the Underwriter.

To the best of the Directors' knowledge, information and belief, the Underwriter and its ultimate beneficial owners are not connected with the Company and its associates.

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Special conditions of the Underwriter's underwriting obligations

The Underwriter will not be beneficially interested in 30% or more of the issued share capital of the Company as enlarged by the Open Offer and in the event of the Underwriter being called upon to subscribe for or procure subscribers for the Underwritten Shares not taken up, the Underwriter shall not subscribe, for its own account, for such number of Underwritten Shares not taken up which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to 30% or above of the issued share capital of the Company as enlarged by the Open Offer; and the Underwriter shall ensure that none of the subscribers of the Underwritten Shares not taken up will become a substantial shareholder (as defined in the GEM Listing Rules) of the Company as a result of such subscription.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that for the purposes of Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

- (1) in the absolute opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects 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 generis 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 absolute opinion of the

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Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
- (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
- (5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
- (6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Open Offer; or
- (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the announcement in respect of the Open Offer or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or

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- (8) the Prospectus when published contains information (either as to business prospects or 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 absolute opinion of the Underwriter is material to the Group as a whole upon completion of the Open Offer and is likely to affect materially and adversely the success of the Open Offer,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

- (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or
- (2) any specified event as defined under the Underwriting Agreement comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

WARNING OF THE RISK OF DEALING IN SHARES

The Shareholders and potential investors of the Company should note that the Open Offer is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the paragraph headed “Termination of the Underwriting Agreement” above). Accordingly, the Open Offer may or may not proceed.

The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealings in the Shares, and if they are in any doubt about their positions, they should consult their professional advisers.

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The Shareholders should note that the Shares have been dealt in on an ex-entitlement basis commencing from Tuesday, 25 August 2009 and that dealings in Shares will take place while the conditions to which the Underwriting Agreement is 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 on Monday, 21 September 2009), will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE OPEN OFFER

The existing shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company immediately upon completion of the Open Offer are set out below for illustration purpose only:

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders (other than Dr. Cheung and GEM Hero) shall take up his/her/its entitlements under the Open Offer) (Note 3)		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders shall take up his/her/its entitlements under the Open Offer)	
	No. of Shares	Approximate	No. of Shares	Approximate	No. of Shares	Approximate
		%		%		%
Dr. Cheung (Note 1)	249,270,000	26.0	1,495,620,000	26.0	1,495,620,000	26.0
GEM Hero (Note 2)	144,000,000	15.0	864,000,000	15.0	864,000,000	15.0
Public Shareholders						
The Underwriter	—	0.0	2,833,050,000	49.2	—	0.0
Other public Shareholders	566,610,000	59.0	566,610,000	9.8	3,399,660,000	59.0
Total:	959,880,000	100.00	5,759,280,000	100.00	5,759,280,000	100.00

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Notes:

1. Interests in 249,270,000 Shares comprise of 100,070,000 Shares directly held by Dr. Cheung and 149,200,000 Shares held by Biochem Investments Limited which is wholly owned by Dr. Cheung.
2. These shares are held by GEM Hero Investments Limited of which the entire issued capital is beneficially owned by Mr. Chung Kwok Cheung.
3. For illustration purpose only. Such scenario will never occur as the Open Offer is conditional upon, inter alia, the entering into of binding agreements by the Underwriter with certain places and/or sub-underwriters, which shall be third parties independent of the Company and its associates, for placing and/or sub-underwriting the Offer Shares, such that (i) none of the places and/or sub-underwriters and their respective parties acting in concert (having the meaning under the Takeovers Code) shall be interested in 10% or more of the issued share capital of the Company as enlarged by the Open Offer, and (ii) the Underwriter and parties acting in concert with it will not be beneficially interested in 30% or above of the issued share capital of the Company as enlarged by the Open Offer.

FUNDS RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

During the past twelve months immediately preceding the date of the Announcement, the Company has not conducted any fund raising activities.

THE REASONS FOR THE OPEN OFFER AND THE USE OF PROCEEDS

The estimated net proceeds from the Open Offer will be approximately HK\$46 million.

The Board intends to apply the net proceeds for repayment of debts and as general working capital of the Group and for financing its operations and activities for expanding its existing beauty, slimming and spa businesses and developing the growing beauty product distribution business in order to improve its financial position of the Group and to enrich and diversify its business, bringing better returns to the Shareholders.

As the Board is of the opinion that the PRC market has immense potential for health and beauty products, which will provide with Group with stable source of income in the long run, the Board also intends to use some of the net proceeds to support its intended business growth in the PRC.

The estimated expenses in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses and the subsequent issue fee of the Offer Shares of approximately HK\$2 million will be borne by the Company.

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The Directors are of the view that the Open Offer is in the interest of the Company and its Shareholders as a whole as the Open Offer will strengthen the Company's working capital base, enhance its financial position and enable the Shareholders to participate in the future growth and development of the Company.

RISK FACTORS

The Company sets out below the risk factors of the Group for the Shareholders' and prospective investors' attention. The Directors believe that there are certain risks involved in the Group's operations, which include:

1. financial risks relating to the Group's normal course of business;
2. risks relating to health and beauty products sales;
3. risks relating to competition;
4. risks relating to the global market;
5. risks relating to the Group's reliance on major suppliers; and
6. risks relating to the outbreak of Human Swine Flu

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 products sales

The health and beauty products market is highly fragmented, 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.

Risks relating to competition

The health and beauty business is under vigorous competition throughout the world. Increased competition could result in price reduction, reduced profit margins and loss of market share, any of which could adversely affect the Group's operating results.

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Risk relating to the global market

The Group's business is subject to the general economic conditions mainly in Hong Kong and the PRC, which have suffered considerably commencing from the outbreak sub-prime crisis in the United States. The Company expects that net earnings for 2009 will be affected by the negative impact of the recent global financial crisis and economic slowdown.

Risks relating to the Group's reliance on major suppliers

For the years ended 31 March 2007, 2008 and 2009, purchases by the Group from the top five suppliers amounted to approximately 97.36%, 93.37% and 99.51% of the Group's cost of sales respectively, and purchases by the Group from the largest supplier included therein amounted to 48.17%, 88.52% and 97.11% respectively. In the event that the Company is unable to secure further purchases from any of these suppliers or any dispute arises between the Group and any of these suppliers, the Group's operations may be adversely affected.

Risks relating to the outbreak of Human Swine Flu

The Group's business operations and financial position, similar to all other consumer businesses in Hong Kong and the PRC, are to a large extent subject to the general economic conditions, the level of domestic consumption and the aggregate spending in Hong Kong and the PRC. The recent outbreak of human swine flu all over the world had adversely affected the economy and domestic consumption power in such territories generally. The Directors have confirmed that up to the Latest Practicable Date there had not been any disruption in the Group's business operations or any adverse impact on the Group's financial results brought by the outbreak of human swine flu. However, should the epidemic get more severe and the governments in Hong Kong and the PRC cannot sustain their efforts in controlling the epidemic, the business operation and financial results of the Group may be adversely affected.

ADJUSTMENTS TO SHARE OPTIONS

As at the Latest Practicable Date, there are 24,690,000 outstanding Share Options entitling the holders thereof to subscribe for a total of 24,690,000 Shares.

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Adjustments to the exercise prices and numbers of the outstanding Share Options may be required under the Share Option Scheme. An approved independent financial adviser or the auditors of the Company will be appointed to certify the necessary adjustments, if any, to the exercise prices and numbers of the outstanding Share Options. Further announcement will be made by the Company in this regard.

3. THE EGM

The EGM was held on 31 August 2009 at which the resolutions in respect of the Capital Increase and the Open Offer were duly passed. Details of the results of the EGM were published in the announcement of the Company dated 31 August 2009.

4. THE INFORMATION OF THE GROUP

The Group is principally engaged in the distribution sale of cosmetic and skin care products, provision of beauty and slimming services and sale of other health and beauty products.

5. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Prospectus.

Yours faithfully,
For and on behalf of the Board of
Sau San Tong Holdings Limited
Cheung Yuk Shan, Shirley
Chairman

SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

1. THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the audited consolidated financial information of the Group for each of the three years ended 31 March 2009 as extracted from the relevant annual reports of the Company.

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Turnover	437,916	446,821	443,588
Cost of sales	<u>(359,450)</u>	<u>(344,809)</u>	<u>(348,164)</u>
Gross profit	78,466	102,012	95,424
Other revenue and net income	1,237	4,727	7,408
Selling and distribution costs	(63,081)	(63,491)	(65,370)
General and administrative expenses	(45,186)	(39,115)	(45,505)
Other operating expenses	<u>—</u>	<u>—</u>	<u>(7)</u>
(Loss)/profit from operations	(28,564)	4,133	(8,050)
Finance costs	(1,579)	(941)	(666)
Share of losses of jointly controlled entities	<u>(3,277)</u>	<u>—</u>	<u>—</u>
(Loss)/profit before taxation	(33,420)	3,192	(8,716)
Income tax expenses	<u>(1,039)</u>	<u>(1,353)</u>	<u>(7,231)</u>
(Loss)/profit for the year	<u>(34,459)</u>	<u>1,839</u>	<u>(15,947)</u>
Non-current assets	29,364	22,987	20,228
Current assets	117,669	144,496	88,265
Current liabilities	88,484	77,443	82,553
Net current assets	29,185	67,053	5,712
Non-current liabilities	<u>(3,563)</u>	<u>(3,041)</u>	<u>(232)</u>
Net assets	<u>54,986</u>	<u>86,999</u>	<u>25,708</u>
Capital and reserves			
Equity attributable to equity shareholders of the Company	31,108	58,141	9,072
Minority interests	<u>23,878</u>	<u>28,858</u>	<u>16,636</u>
Total equity	<u>54,986</u>	<u>86,999</u>	<u>25,708</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2009

Set out below are the audited consolidated financial statements of the Group for the year ended 31 March 2009 together with the relevant notes thereto as extracted from the Company's annual report for the year ended 31 March 2009:

Consolidated Income Statement

For the year ended 31 March 2009

(Expressed in Hong Kong dollars)

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Turnover	3	437,916	446,821
Cost of sales		<u>(359,450)</u>	<u>(344,809)</u>
Gross profit		78,466	102,012
Other revenue	4	1,418	3,747
Other net (loss)/income	4	(181)	971
Selling and distribution costs		(63,081)	(63,491)
General and administrative expenses		<u>(45,186)</u>	<u>(39,106)</u>
(Loss)/profit from operations		(28,564)	4,133
Finance costs	5(a)	(1,579)	(941)
Share of losses of jointly controlled entities		<u>(3,277)</u>	<u>—</u>
(Loss)/profit before taxation	5	(33,420)	3,192
Income tax expense	6	<u>(1,039)</u>	<u>(1,353)</u>
(Loss)/profit for the year		<u><u>(34,459)</u></u>	<u><u>1,839</u></u>

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Attributable to:			
Equity shareholders of the Company	9	(30,651)	(55)
Minority interests		<u>(3,808)</u>	<u>1,894</u>
(Loss)/profit for the year		<u>(34,459)</u>	<u>1,839</u>
Dividend	10	<u>—</u>	<u>—</u>
Loss per share			
Basic, HK cents	11	<u>(3.19)</u>	<u>(0.01)</u>
Diluted, HK cents		<u>(3.19)</u>	<u>(0.01)</u>

Consolidated Balance Sheet*At 31 March 2009**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>13</i>	26,529	22,737
Goodwill	<i>14</i>	250	250
Interests in jointly controlled entities	<i>16</i>	2,585	—
		<u>29,364</u>	<u>22,987</u>
Current assets			
Inventories	<i>17</i>	5,641	6,689
Trade receivables	<i>18</i>	34,325	35,642
Prepayments, deposits and other receivables	<i>18</i>	26,213	28,472
Amounts due from related parties	<i>19</i>	21,502	23,200
Cash and cash equivalents	<i>20</i>	29,988	50,493
		<u>117,669</u>	<u>144,496</u>
Current liabilities			
Bank loans, secured	<i>21</i>	22,546	22,131
Trade payables	<i>22</i>	14,508	15,004
Other payables and accrued charges	<i>22</i>	9,203	21,699
Amount due to a director	<i>23</i>	24,836	—
Amount due to a related party	<i>19</i>	887	—
Deferred income		15,040	18,110
Obligations under finance leases	<i>24</i>	1,141	302
Current taxation	<i>25(a)</i>	323	197
		<u>88,484</u>	<u>77,443</u>
Net current assets		<u>29,185</u>	<u>67,053</u>
Total assets less current liabilities		58,549	90,040

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Non-current liabilities			
Obligations under finance leases	<i>24</i>	791	—
Deferred tax liabilities	<i>25(b)</i>	<u>2,772</u>	<u>3,041</u>
		<u>3,563</u>	<u>3,041</u>
NET ASSETS		<u>54,986</u>	<u>86,999</u>
CAPITAL AND RESERVES			
	<i>28</i>		
Share capital		9,599	9,599
Reserves		<u>21,509</u>	<u>48,542</u>
Total equity attributable to equity shareholders of the Company		31,108	58,141
Minority interests		<u>23,878</u>	<u>28,858</u>
TOTAL EQUITY		<u>54,986</u>	<u>86,999</u>

Balance Sheet*At 31 March 2009**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	<i>15</i>	<u>4</u>	<u>4</u>
		<u>4</u>	<u>4</u>
Current assets			
Amounts due from subsidiaries	<i>15</i>	82,798	57,147
Prepayments, deposits and other receivables	<i>18</i>	908	2,906
Cash and cash equivalents	<i>20</i>	<u>1,203</u>	<u>51</u>
		<u>84,909</u>	<u>60,104</u>
Current liabilities			
Amounts due to subsidiaries	<i>15</i>	3,852	4,164
Other payables and accrued charges	<i>22</i>	923	810
Amount due to a director	<i>23</i>	<u>25,174</u>	<u>—</u>
		<u>29,949</u>	<u>4,974</u>
Net current assets		<u>54,960</u>	<u>55,130</u>
NET ASSETS		<u><u>54,964</u></u>	<u><u>55,134</u></u>
CAPITAL AND RESERVES			
	<i>28</i>		
Share capital		9,599	9,599
Reserves		<u>45,365</u>	<u>45,535</u>
TOTAL EQUITY		<u><u>54,964</u></u>	<u><u>55,134</u></u>

Consolidated Statement of Changes in Equity*For the year ended 31 March 2009**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> <i>(restated)</i>
Total equity at 1 April (restated)		<u>86,999</u>	<u>25,708</u>
Net income recognised directly in equity:			
Exchange differences on translation of the financial statements of overseas subsidiaries	<i>28(a)</i>	2,446	3,777
Net (loss)/profit for the year	<i>28(a)</i>	<u>(34,459)</u>	<u>1,839</u>
Total recognised income and expense for the year		<u>(32,013)</u>	<u>5,616</u>
Attributable to:			
Equity shareholders of the Company		(27,033)	640
Minority interests		<u>(4,980)</u>	<u>4,976</u>
		<u>(32,013)</u>	<u>5,616</u>
Movements in equity arising from capital transactions:			
Issue of shares, net of expenses		—	48,514
Capital injection from minority shareholders		—	7,246
Realisation of capital reserve		—	(100)
Realisation of merger reserve upon disposal of a subsidiary in prior year		<u>—</u>	<u>15</u>
		<u>—</u>	<u>55,675</u>
Total equity at 31 March	<i>28(a)</i>	<u><u>54,986</u></u>	<u><u>86,999</u></u>

Consolidated Cash Flow Statement*For the year ended 31 March 2009**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Operating activities			
(Loss)/profit before taxation		(33,420)	3,192
Adjustments for:			
— Interest income	<i>4</i>	(141)	(276)
— Depreciation	<i>5(c)</i>	10,578	7,801
— Impairment losses on trade and other receivables	<i>5(c)</i>	4,134	362
— Write-off of other receivables	<i>5(c)</i>	2,002	—
— Reversal of impairment loss on trade receivables	<i>4</i>	(185)	(172)
— Net loss on disposal of property, plant and equipment	<i>4</i>	124	181
— Finance costs	<i>5(a)</i>	1,579	941
— Share of losses of jointly controlled entities	<i>16</i>	3,277	—
— Foreign exchange loss, net		3,322	1,484
		<hr/>	<hr/>
Operating (loss)/profit before changes in working capital		(8,730)	13,513
Decrease in inventories		1,048	9,175
Decrease/(increase) in trade receivables		950	(11,154)
Increase in prepayments, deposits and other receivables		(3,325)	(11,609)
Decrease/(increase) in amounts due from related parties		1,698	(12,873)
Decrease in trade payables		(496)	(1,308)
Decrease in other payables and accrued charges		(12,496)	(1,128)
Decrease in deferred income		(3,070)	(5,305)
Increase in amount due to a related party		887	—
		<hr/>	<hr/>
Cash used in operations		(23,534)	(20,689)
Tax paid			
— PRC Enterprise Income Tax paid		(1,210)	(1,949)
Interest received		141	276
		<hr/>	<hr/>
Net cash used in operating activities		(24,603)	(22,362)

	<i>Note</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Investing activities			
Advancements to jointly controlled entities		(5,884)	—
Payment for the purchase of property, plant and equipment		(14,828)	(10,790)
Proceeds from disposal of property, plant and equipment		594	762
Net cash used in investing activities		<u>(20,118)</u>	<u>(10,028)</u>
Financing activities			
Issue of shares, net of expense	<i>28(a)</i>	—	48,514
Repayment of bank loans		(112,525)	(75,970)
Proceeds from new bank loans		112,940	87,991
Repayment of loan from a director		—	(5,585)
Advancement from a director		24,836	—
Inception of finance leases		2,300	—
Capital element of finance lease rentals paid		(670)	(764)
Interest element of finance lease rentals paid		(30)	(48)
Capital injection from minority shareholders		—	7,246
Other borrowing costs paid		(1,549)	(893)
Dividends paid to minority interest		(2,108)	—
Net cash generated from financing activities		<u>23,194</u>	<u>60,491</u>
(Decrease)/increase in cash and cash equivalents		(21,527)	28,101
Cash and cash equivalents at 1 April		50,493	20,533
Effect of foreign exchange rate changes		<u>1,022</u>	<u>1,859</u>
Cash and cash equivalents at 31 March	<i>20</i>	<u><u>29,988</u></u>	<u><u>50,493</u></u>

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. COMPANY INFORMATION

Sau San Tong Holdings Limited (the “Company”) is a company incorporated in the Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law Cap. 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares have been listed on The Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 19 November 2003.

The Company is domiciled in the Cayman Islands and has its registered office and principal place of business at Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman KY1-1111, Cayman Islands and 12th Floor, Prestige Tower, 23-25 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong respectively.

2. SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies applied in these financial statements for the years presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The consolidated financial statements for year ended 31 March 2009 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The

estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)(ii)).

(d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(h)(ii)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Property, plant and equipment

(i) Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(h)(ii)).

- (ii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives at the following annual rates:

Machinery	10.0% — 20.0%
Furniture and fixtures	9.5% — 31.7%
Office and computer equipment	20.0%
Leasehold improvements	20.0% or over the remaining terms of leases (whichever is shorter)
Motor vehicles	20.0% — 30.0%

Both the useful life of an asset and its residual value, if any, are reviewed annually.

- (iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) **Impairment of assets**

(i) *Impairment of receivables*

Receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries and joint ventures; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(iii) *Interim financial reporting and impairment*

Under the GEM Listing Rules, the Group is required to prepare interim financial reports in compliance with HKAS 34, Interim financial reporting, in respect of the first three, six and nine months of the financial year. At the end of each of such interim periods, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(h)(i) and (ii)).

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in-first-out formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(p)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and deposits with banks that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits**(i) *Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group operates a mandatory provident fund scheme in Hong Kong and defined contribution government pension schemes in The People's Republic of China (the "PRC").

Contributions to mandatory provident fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

The employees in the PRC are members of the retirement benefit scheme organised by the government in the PRC. The Group is required to contribute, based on a certain percentage of payroll, to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. Contributions to this retirement benefit scheme are recognised as an expense in profit or loss as incurred except to the extent that they are included in the cost of inventories at the balance sheet date.

(ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share-based payment reserve within equity. The fair value is measured at grant date using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

(o) **Income tax**

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case it is recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within other payables and accrued charges. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other payables and accrued charges in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue from the distribution sale of cosmetic and skin care products and the sale of other health and beauty products is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Revenue from the provision of beauty and slimming services

Revenue from the provision of beauty and slimming services is recognised in profit or loss in proportion to the stage of completion of the service contract. Revenue is also recognised in profit or loss in respect of the deferred income upon the expiry of the service contract.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Management and consultancy fee income

Management and consultancy fee income is recognised when services are rendered.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transactions dates.

The results of foreign currencies are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(s) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3. TURNOVER

The principal activities of the Group are the distribution sale of cosmetic and skin care products, provision of beauty and slimming services and sale of other health and beauty products.

Turnover represents the invoiced value of goods supplied to customers, net of discounts, returns, value added tax or other sales taxes; and service income from provision of beauty and slimming services, net of discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Distribution sale of cosmetic and skin care products	364,985	344,563
Provision of beauty and slimming services (<i>note</i>)	70,290	99,935
Sale of other health and beauty products	2,641	2,323
	<u>437,916</u>	<u>446,821</u>

Note: Included in the revenue from provision of beauty and slimming services was HK\$36,350,000 (2008: HK\$39,626,000) arising from the realisation in respect of the deferred income upon the expiry of the service contracts.

4. OTHER REVENUE AND NET (LOSS)/INCOME

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Other revenue		
Management and consultancy fee income	1,053	3,383
Interest income	141	276
Others	224	88
	<u>1,418</u>	<u>3,747</u>
Other net (loss)/income		
Subsidy income from the PRC government	1,094	1,113
Reversal of impairment loss on trade receivables (<i>note 18(b)</i>)	185	172
Net foreign exchange loss	(1,573)	(9)
Net loss on disposal of property, plant and equipment	(124)	(181)
Other income/(loss)	237	(124)
	<u>(181)</u>	<u>971</u>

5. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived after charging:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
(a) Finance costs		
Interest on bank loans	1,549	861
Interest on loan payable to a director	—	32
Finance charges on obligations under finance leases	30	48
	<u>1,579</u>	<u>941</u>
(b) Staff costs		
Salaries, allowances and other benefits	40,472	40,763
Contributions to defined contribution retirement plans	4,372	4,286
	<u>44,844</u>	<u>45,049</u>
(c) Other items:		
Cost of inventories sold and services provided (<i>note (i)</i>)	359,450	344,809
Auditors' remuneration	747	751
Depreciation on property, plant and equipment		
— leased assets	462	329
— owned assets	10,116	7,472
Reinstatement cost of leased premises (<i>note (ii)</i>)	—	630
Impairment losses		
— trade receivables (<i>note 18(b)</i>)	552	362
— other receivables (<i>note 18(i)</i>)	3,582	—
Write-off of other receivables	2,002	—
Donation	368	164
Operating lease rentals: minimum lease payments		
— property and display locations rentals	18,987	16,708
— other equipment	175	424
	<u>175</u>	<u>424</u>

Note:

- (i) Cost of inventories sold and services provided include HK\$2,243,000 (2008: HK\$1,974,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each type of expense.

- (ii) Under a tenancy agreement, a subsidiary was obligated to reinstate the leased office premises to a condition in accordance with the landlord's standard specifications. Accordingly, HK\$630,000 was paid by a subsidiary during the year ended 31 March 2008 in connection with the reinstatement of leased premises based on a surrender agreement entered into with the landlord.

Apart from the above, during the years ended 31 March 2008 and 2009, the Group had also entered into certain tenancy agreements whereas the Group is obligated to reinstate the leased office premises and slimming centers. However, no provision for reinstatement of leased premises is made by the Group in this regard since the magnitude of the possible reinstatement is unknown and therefore such future cost cannot be reasonably estimated.

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

- (a) Taxation in the consolidated income statement represents:

	2009 HK\$'000	2008 HK\$'000
Current tax — PRC Enterprise Income Tax		
Provision for the year (<i>note 25(a)</i>)	1,329	1,684
Under/(over)-provision in respect of prior years	53	(3,197)
	<u>1,382</u>	<u>(1,513)</u>
Deferred tax		
Origination and reversal of temporary differences (<i>note 25(b)(i)</i>)	(343)	2,866
Income tax expense	<u>1,039</u>	<u>1,353</u>

- (i) No provision for Hong Kong Profits Tax is made for 2009 (2008: HK\$Nil) as the Company and its subsidiaries sustained tax losses or have no assessable profit for Hong Kong Profits Tax purposes.

On 27 February 2008, the Financial Secretary of the Hong Kong Special Administrative Region Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% which is applicable to the Group's operations in Hong Kong as from the year ended 31 March 2009. This decrease is taken into account in the preparation of the Group's financial statements in respect of the measurement of the opening balances of deferred tax assets and liabilities.

- (ii) Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rate of taxation ruling in the relevant tax jurisdictions.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC where the PRC enterprise income tax rate has been unified to 25% with effect from 1 January 2008. The enterprise income tax rate applicable to the Company's subsidiaries established in the PRC is 25% in 2009 (2008: ranging from 25% to 33%).

(iii) The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rates in Hong Kong and the PRC, was recognised in the consolidated income statement of the Group for the years ended 31 March 2009 and 2008 respectively.

(b) Reconciliation between income tax expense and accounting (loss)/profit at the applicable tax rates:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
(Loss)/profit before taxation	<u>(33,420)</u>	<u>3,192</u>
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the countries concerned	(3,660)	285
Tax effect of non-deductible expenses	796	1,786
Tax effect of non-taxable income	(306)	(2,308)
Tax effect of unused tax losses not recognised	3,537	1,511
Tax effect on temporary differences not recognised	513	45
Under/(over)-provision in prior years	53	(272)
Effect of changes in tax rates	—	818
Others	<u>106</u>	<u>(512)</u>
Actual tax expense	<u><u>1,039</u></u>	<u><u>1,353</u></u>

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the disclosure requirement of section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees		Salaries, allowances and benefits in kind		Retirement scheme contributions		Total	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Executive directors								
Dr. Cheung Yuk Shan, Shirley	—	—	2,573	2,713	12	12	2,585	2,725
Mr. Cheung Ka Heng, Frankie	—	—	600	600	12	12	612	612
Mr. Lee Man Kwong (retired on 19 March 2008)	—	—	—	600	—	12	—	612
Independent non- executive directors								
Mr. Li Kuo Hsing	10	77	—	—	—	—	10	77
Mr. Hong Po Kui, Martin	30	30	—	—	—	—	30	30
Ms. Hui Yat Lam (appointed on 10 March 2008)	60	4	—	—	—	—	60	4
Mr. Ho Yiu Ming (deceased on 9 December 2007)	—	41	—	—	—	—	—	41
	<u>100</u>	<u>152</u>	<u>3,173</u>	<u>3,913</u>	<u>24</u>	<u>36</u>	<u>3,297</u>	<u>4,101</u>

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2008: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2008: three) individuals are as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Salaries and other emoluments	2,472	2,621
Retirement scheme contributions	36	36
	<u>2,508</u>	<u>2,657</u>

The emoluments of the three (2008: three) individuals with the highest emoluments are within the following bands:

	2009 <i>Number of individuals</i>	2008 <i>Number of individuals</i>
HK\$ Nil – HK\$1,000,000	<u>3</u>	<u>3</u>

9. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK\$170,000 (2008: HK\$490,000) which has been dealt with in the financial statements of the Company.

10. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 March 2009 (2008: HK\$Nil).

11. LOSS PER SHARE**(a) Basic loss per share**

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK\$30,651,000 (2008: HK\$55,000) and the weighted average of 959,880,000 (2008: 906,421,475) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2009	2008
Issued ordinary shares at 1 April	959,880,000	666,900,000
Effect of shares issued (<i>note 28(c)(ii)</i>)	—	239,521,475
Weighted average number of ordinary shares at 31 March	<u>959,880,000</u>	<u>906,421,475</u>

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK\$30,651,000 (2008: HK\$55,000) and on the weighted average number of 959,880,000 (2008: 906,421,475) ordinary shares.

The diluted loss per share calculations have not included the outstanding share options as at 31 March 2009 and 2008 since the effect is anti-dilutive.

12. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

- (i) Distribution sale of cosmetic and skin care products
- (ii) Provision of beauty and slimming services
- (iii) Sale of other health and beauty products

(a) Business segments

	Distribution sale		Provision of beauty and slimming services		Sale of other health and beauty products		Inter-segment elimination		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
External sales	364,985	344,563	70,290	99,935	2,641	2,323	—	—	437,916	446,821
Inter-segment sales	—	—	—	—	—	693	—	(693)	—	—
Total revenue	<u>364,985</u>	<u>344,563</u>	<u>70,290</u>	<u>99,935</u>	<u>2,641</u>	<u>3,016</u>	<u>—</u>	<u>(693)</u>	<u>437,916</u>	<u>446,821</u>
Segment result	<u>1,919</u>	<u>3,142</u>	<u>(26,926)</u>	<u>17,494</u>	<u>(287)</u>	<u>(2,280)</u>			<u>(25,294)</u>	<u>18,356</u>
Unallocated corporate expenses									(6,373)	(19,063)
Unallocated corporate other revenue									3,103	4,840
(Loss)/profit from operations									(28,564)	4,133
Finance costs									(1,579)	(941)
Share of losses of jointly controlled entities									(3,277)	—
(Loss)/profit before taxation									(33,420)	3,192
Taxation									(1,039)	(1,353)
(Loss)/profit after taxation									<u>(34,459)</u>	<u>1,839</u>
Impairment of										
— Trade receivables	552	177	—	—	—	185	—	—	552	362
— Other receivables	—	—	3,582	—	—	—	—	—	3,582	—
Write-off of other receivables	—	—	2,002	—	—	—	—	—	2,002	—
Depreciation										
— Segment depreciation	1,271	814	9,294	6,710	13	39	—	—	10,578	7,563
— Unallocated corporate depreciation									—	238
									<u>10,578</u>	<u>7,801</u>
Segment assets										
— Property, plant and equipment	3,443	3,300	19,654	11,881	30	27	—	—	23,127	15,208
— Interests in jointly controlled entities	—	—	2,585	—	—	—	—	—	2,585	—
— Other assets	73,946	90,551	27,713	25,551	4,185	4,396	—	—	105,844	120,498
Unallocated corporate assets									15,477	31,777
Total assets									<u>147,033</u>	<u>167,483</u>
Segment liabilities	(36,483)	(51,461)	(27,114)	(26,552)	(551)	(15)	—	—	(64,148)	(78,028)
Unallocated corporate liabilities									(27,899)	(2,456)
Total liabilities									<u>(92,047)</u>	<u>(80,484)</u>
Capital expenditure										
— Segment capital expenditure	1,819	1,235	17	8,995	12,956	—	—	—	14,792	10,230
— Unallocated corporate capital expenditure									36	560
									<u>14,828</u>	<u>10,790</u>

(b) Geographical segments

The Group's businesses are participated in two principal economic environments. The PRC is a major market for all the Group's businesses. Hong Kong is a major market for provision for beauty and slimming services.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical locations of customers. Segment assets and capital expenditure are based on the geographical locations of assets.

	The PRC		Hong Kong		Total	
	2009	2008	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	391,918	383,167	45,998	63,654	437,916	446,821
Segment assets	101,568	103,760	45,465	63,723	147,033	167,483
Capital expenditure incurred during the year	10,900	1,908	3,928	8,882	14,828	10,790

13. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Machinery <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office and computer equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At 1 April 2007	13,116	3,010	5,939	23,239	4,525	49,829
Reclassification	140	282	(422)	—	—	—
Exchange adjustments	216	84	252	557	301	1,410
Additions	193	195	993	7,597	1,812	10,790
Disposals	—	—	(86)	(8,839)	(1,703)	(10,628)
At 31 March 2008	<u>13,665</u>	<u>3,571</u>	<u>6,676</u>	<u>22,554</u>	<u>4,935</u>	<u>51,401</u>
At 1 April 2008	13,665	3,571	6,676	22,554	4,935	51,401
Exchange adjustments	66	34	73	218	116	507
Additions	3,945	346	311	8,485	1,741	14,828
Disposals	(244)	(90)	(219)	(1,464)	(1,468)	(3,485)
At 31 March 2009	<u>17,432</u>	<u>3,861</u>	<u>6,841</u>	<u>29,793</u>	<u>5,324</u>	<u>63,251</u>
Accumulated depreciation:						
At 1 April 2007	5,882	1,639	2,800	17,202	2,328	29,851
Reclassification	24	98	(122)	—	—	—
Exchange adjustments	80	19	87	348	163	697
Charge for the year	1,860	415	974	3,812	740	7,801
Written back on disposals	—	—	(77)	(8,421)	(1,187)	(9,685)
At 31 March 2008	<u>7,846</u>	<u>2,171</u>	<u>3,662</u>	<u>12,941</u>	<u>2,044</u>	<u>28,664</u>
At 1 April 2008	7,846	2,171	3,662	12,941	2,044	28,664
Exchange adjustments	31	11	28	128	49	247
Charge for the year	2,183	455	958	6,069	913	10,578
Written back on disposals	(20)	(90)	(197)	(1,464)	(996)	(2,767)
At 31 March 2009	<u>10,040</u>	<u>2,547</u>	<u>4,451</u>	<u>17,674</u>	<u>2,010</u>	<u>36,722</u>
Carrying value:						
At 31 March 2009	<u>7,392</u>	<u>1,314</u>	<u>2,390</u>	<u>12,119</u>	<u>3,314</u>	<u>26,529</u>
At 31 March 2008	<u>5,819</u>	<u>1,400</u>	<u>3,014</u>	<u>9,613</u>	<u>2,891</u>	<u>22,737</u>

As at 31 March 2009, the carrying value of machinery held under finance leases of the Group was HK\$2,691,000 (2008: HK\$1,126,000).

14. GOODWILL

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:		
At 1 April	271	983
Disposals (<i>note</i>)	—	(712)
	<u>271</u>	<u>271</u>
At 31 March	271	271
Accumulated impairment:		
At 1 April	21	733
Written back on disposal (<i>note</i>)	—	(712)
	<u>21</u>	<u>21</u>
At 31 March	21	21
Carrying amount:		
At 31 March	<u><u>250</u></u>	<u><u>250</u></u>

Note: During the year ended 31 March 2008, the Group had written back the cost and accumulated impairment of goodwill of HK\$712,000 upon the completion of the voluntarily wind-up of Highlight International Investment Limited.

Goodwill is accounted for in accordance with the Group's accounting policies as set out in note 2(e).

Goodwill is allocated to the Group's cash-generating unit ("CGU") in relation to the provision of beauty and slimming services in Hong Kong and the PRC; and the sale of cosmetic and skin care products in the PRC.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Key assumptions used for the value-in-use calculations are:

	2009 and 2008
— Gross margin	5% — 15%
— Discount rate	12%

Management determined the budgeted gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks.

The recoverable amount of the CGU is greater than its carrying amount. Any adverse change in assumptions could reduce the recoverable amount below carrying amount.

15. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	The Company	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	3,664	3,664
<i>Less: impairment losses</i>	<u>(3,660)</u>	<u>(3,660)</u>
	<u>4</u>	<u>4</u>
Amounts due from subsidiaries	101,546	76,020
<i>Less: impairment losses</i>	<u>(18,748)</u>	<u>(18,873)</u>
	<u>82,798</u>	<u>57,147</u>
Amounts due to subsidiaries	<u>3,852</u>	<u>4,164</u>

The amounts due from/to subsidiaries are unsecured, interest free and repayable on demand.

At 31 March 2009, the amounts due from subsidiaries amounting to HK\$125,000 (2008: HK\$Nil) were considered as recoverable and, accordingly, a corresponding reversal of impairment loss was recognised in the financial statements for the year ended 31 March 2009.

The following list contains the particulars of subsidiaries as at 31 March 2009. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
				Group's effective interest	Held by the Company	Held by a subsidiary	
Sau San Tong Holdings Inc. <i>(note (i))</i>	British Virgin Islands	Hong Kong	1,000 shares of US\$1 each	100%	100%	—	Investment holding
Sau San Tong China Holdings Limited <i>(note (i))</i>	British Virgin Islands	Hong Kong	1 share of US\$1 each	100%	100%	—	Investment holding
Smartime International Investment Limited <i>(note (i))</i>	British Virgin Islands	Hong Kong	1 share of US\$1 each	100%	100%	—	Investment holding
Sau San Tong China Investment Ltd. <i>(note (i))</i>	British Virgin Islands	Hong Kong	100 shares of US\$1 each	100%	100%	—	Investment holding
Wise Fortune Holdings Corp. <i>(note (i))</i>	British Virgin Islands	Hong Kong	10 shares of US\$1 each	100%	100%	—	Investment holding
Sau San Tong China Development Limited <i>(note (i))</i>	British Virgin Islands	Hong Kong	10 shares of US\$1 each	100%	100%	—	Investment holding
Gold Lane International Holdings Ltd. <i>(note (i))</i>	British Virgin Islands	Hong Kong	100 shares of US\$1 each	100%	100%	—	Inactive

Name of company	Place of incorporation	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
				Group's effective interest	Held by the Company	Held by a subsidiary	
Victory Assets Holdings Ltd. <i>(note (i))</i>	British Virgin Islands	Hong Kong	100 shares of US\$1 each	100%	100%	—	Investment holding
Brilliant Concept Co. Ltd. <i>(note (i))</i>	British Virgin Islands	Hong Kong	1 share of US\$1 each	100%	—	100%	Investment holding
Bright Rainbow Investments Ltd. <i>(note (i))</i>	British Virgin Islands	Hong Kong	100 shares of US\$1 each	100%	—	100%	Provision of management consultancy service
Sau San Tong Beauty Figure Limited	Hong Kong	Hong Kong	10,000 shares of HK\$1 each	100%	—	100%	Sale of health and beauty products
Sau San Tong Medical Cosmetology Healthy Trim Institute Limited	Hong Kong	Hong Kong	18,750 shares of HK\$1 each	100%	—	100%	Provision of beauty and slimming services
Sau San Tong Medical Cosmetology Healthy Trim Institute (TST) Limited	Hong Kong	Hong Kong	10,000 shares of HK\$1 each	100%	—	100%	Provision of beauty and slimming services
Sau San Tong Medical Cosmetology Healthy Trim Institute (Causeway Bay) Limited	Hong Kong	Hong Kong	100 shares of HK\$1 each	100%	—	100%	Provision of beauty and slimming services
Sau San Tong Management Limited	Hong Kong	Hong Kong	100 shares of HK\$1 each	100%	—	100%	Provision of management consultancy service
Sau San Tong Health Food Limited	Hong Kong	Hong Kong	100 shares of HK\$1 each	100%	—	100%	Inactive
SST Advertising Agency Limited	Hong Kong	Hong Kong	10,000 shares of HK\$1 each	100%	—	100%	Provision of advertising agency service
Sau San Tong (Shanghai) Limited <i>(note (i))</i>	British Virgin Islands	Hong Kong	1,000 shares of US\$1 each	50%	—	50%	Investment holding and provision of management consultancy service
Sau San Tong Healthy Trim Institute (Hangzhou) Limited <i>(note(i))</i>	British Virgin Islands	Hong Kong	100 shares of US\$1 each	51%	—	51%	Investment holding
上海一定得美容有限公司 <i>(notes (ii) and (viii))</i>	The PRC	The PRC	Registered capital US\$150,000	50%	—	100%	Provision of beauty and slimming services

Name of company	Place of incorporation	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
				Group's effective interest	Held by the Company	Held by a subsidiary	
上海東翁日化銷售有限公司 (notes (iii) and (viii))	The PRC	The PRC	Registered capital US\$5,000,000	51%	—	51%	Distribution sale of cosmetic and skin care products
一定得健身服務(深圳)有限公司 (notes (iv) and (vii))	The PRC	The PRC	Registered capital HK\$3,500,000	51%	—	100%	Provision of beauty and slimming services
一定得纖體美體(杭州)有限公司 (notes (v) and (vii))	The PRC	The PRC	Registered capital HK\$3,500,000	51%	—	100%	Provision of beauty and slimming services
Highlight International Trading Limited	Hong Kong	Hong Kong	100 shares of HK\$1 each	100%	—	100%	Inactive
Sau San Tong Medical Cosmetology Healthy Trim Institute (Shatin) Limited	Hong Kong	Hong Kong	100 shares of HK\$1 each	100%	—	100%	Inactive
Sau San Tong (Shanghai) Development Ltd. (note (i))	British Virgin Islands	Hong Kong	10 shares of US\$1 each	50%	—	50%	Inactive
Sau San Tong (Beijing) Investments Limited (note (i))	British Virgin Islands	Hong Kong	100 shares of US\$1 each	100%	—	100%	Investment holding
Machiko Enterprises Inc. (note (i))	British Virgin Islands	Hong Kong	100 shares of US\$1 each	100%	—	100%	Investment holding
Sau San Tong Healthy Trim Institute (Shenzhen) Limited (note (i))	British Virgin Islands	Hong Kong	100 shares of US\$1 each	51%	—	51%	Investment holding
Winner Sight Limited	Hong Kong	Hong Kong	2 shares of HK\$1 each	100%	—	100%	Inactive
西西里美容(北京)有限公司 (notes (vi) and (vii))#	The PRC	The PRC	Registered capital HK\$1,000,000	100%	—	100%	Provision of beauty and slimming services

This subsidiary was established by the Group in 2009.

Note:

- (i) The financial statements of these entities are not required to be audited under the laws of the British Virgin Islands, the country of incorporation.
- (ii) The financial statements of 上海一定得美容有限公司 for the financial years ended 31 December 2008 and 2007 prepared under Generally Accepted Accounting Principles applicable in the PRC have been audited by 上海宏太東亞會計師事務所有限公司.

- (iii) The financial statements of 上海東紡日化銷售有限公司 for the financial years ended 31 December 2008 and 2007 prepared under Generally Accepted Accounting Principles applicable in the PRC have been audited by 立信會計師事務所有限公司.
- (iv) The financial statements of 一定得健身服務(深圳)有限公司 for the financial years ended 31 December 2008 and 2007 prepared under Generally Accepted Accounting Principles applicable in the PRC have been audited by 深圳皇嘉會計師事務所 and 深圳中慶會計師事務所有限公司 respectively.
- (v) The financial statements of 一定得纖體美體(杭州)有限公司 for the financial years ended 31 December 2008 and 2007 prepared under Generally Accepted Accounting Principles applicable in the PRC have been audited by 浙江天惠會計師事務所有限公司 and 杭州華磊會計師事務所有限公司 respectively.
- (vi) The financial statements of 西西里美容(北京)有限公司 for the financial period ended 31 December 2008 prepared under Generally Accepted Accounting Principles applicable in the PRC have been audited by 天華正信(北京)會計師事務所有限公司.
- (vii) These entities established in the PRC are wholly foreign-owned enterprises.
- (viii) These entities established in the PRC are sino-foreign joint-venture enterprises.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The Group	2008
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net liabilities	(3,299)	—
Amounts due from jointly controlled entities	5,884	—
	<u>2,585</u>	<u>—</u>

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment. In the opinion of directors, these amounts are not expected to be repaid within one year and are therefore reclassified as non-current in the consolidated balance sheet.

Details of the jointly controlled entities as at 31 March 2009 are as follows:

Name of joint venture	Place of incorporation	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
				Group's effective interest	Held by the Company	Held by a subsidiary	
Wealthy Sound Limited <i>(note(i))</i>	Hong Kong	Hong Kong	10,000 shares of HK\$1 each	50%	—	50%	Investment holding
修身堂卓越美容(北京)有限公司 <i>(notes (ii) and (iii))</i>	The PRC	The PRC	Registered capital US\$150,000	50%	—	100%	Provision of beauty and slimming services

Note:

- (i) As at 31 March 2008, the entire issued share capital of Wealthy Sound Limited (“WSL”) was held by Sau San Tong (Beijing) Investments Limited (“BIL”), a wholly-owned subsidiary of the Company. In March 2008, an agreement was entered between BIL, Beauti-Good Limited (“BGL”) and an individual where BIL and BGL agreed to subscribe for new ordinary shares of WSL for a consideration of HK\$6,000,000 such that each of BIL and BGL would hold a 50% of the enlarged issued share capital of WSL.

During the year ended 31 March 2009, new ordinary shares were allotted by WSL to BIL and BGL according to the above-mentioned agreement. Accordingly, the Group’s interest in WSL was decreased from 100% to 50% and WSL has become a jointly controlled entity of the Group.

- (ii) 修身堂卓越美容(北京)有限公司 is a wholly foreign-owned enterprise established in the PRC in July 2008 and is beneficially owned by WSL.

- (iii) The financial statements of 修身堂卓越美容(北京)有限公司 for the financial period ended 31 December 2008 prepared under Generally Accepted Accounting Principles applicable in the PRC have been audited by 天華正信(北京)會計師事務所有限公司.

Summary financial information on jointly controlled entities – Group’s effective interest:

	The Group	
	2009	2008
	<i>HK\$’000</i>	<i>HK\$’000</i>
Non-current assets	3,909	—
Current assets	1,925	—
Current liabilities	(9,133)	—
Net liabilities	<u>(3,299)</u>	<u>—</u>
Income	1,693	—
Expenses	(4,970)	—
Loss for the year	<u>(3,277)</u>	<u>—</u>

17. INVENTORIES

- (a) Inventories in the balance sheet comprise:

	The Group	
	2009	2008
	<i>HK\$’000</i>	<i>HK\$’000</i>
Merchandise	<u>5,641</u>	<u>6,689</u>

- (b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of inventories sold	345,256	330,464
Write down of inventories	36	—
	<u>345,292</u>	<u>330,464</u>
	<u><u>345,292</u></u>	<u><u>330,464</u></u>

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	35,018	35,968	—	—
Less: allowance for doubtful debts (note 18(b))	<u>(693)</u>	<u>(326)</u>	<u>—</u>	<u>—</u>
	<u>34,325</u>	<u>35,642</u>	<u>—</u>	<u>—</u>
Other receivables (note(i))	13,856	15,953	—	809
Deposits and prepayments (note(ii))	<u>12,357</u>	<u>12,519</u>	<u>908</u>	<u>2,097</u>
	<u>26,213</u>	<u>28,472</u>	<u>908</u>	<u>2,906</u>
	<u><u>60,538</u></u>	<u><u>64,114</u></u>	<u><u>908</u></u>	<u><u>2,906</u></u>

Included in the Group's deposits and prepayments were rental and utilities deposits of HK\$4,459,000 (2008: HK\$2,059,000), which is expected to be recovered after more than one year. All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Note:

- (i) Included in the Group's other receivables were advances to slimming business partners of HK\$7,236,000 (2008: HK\$8,084,000), net of allowance for doubtful debt of HK\$3,582,000 (2008: HK\$Nil); prepayments for the set up of new slimming projects in the PRC of HK\$Nil (2008: HK\$4,277,000); and advances to staff of HK\$729,000 (2008: HK\$2,478,000).
- (ii) Included in the Group's and the Company's deposits and prepayments were trade deposits of HK\$3,409,000 (2008: HK\$4,775,000) and HK\$Nil (2008: HK\$Nil) and prepayment for the acquisition of a trademark of HK\$715,000 (2008: HK\$1,915,000) and HK\$715,000 (2008: HK\$1,915,000) respectively.

(a) Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	31,976	30,689
Less than 1 month past due	1,505	4,518
1 to 2 months past due	67	136
More than 2 months but less than 4 months past due	75	46
More than 4 months but less than 12 months past due	379	186
More than 12 months past due	323	67
Amounts past due	2,349	4,953
	<u>34,325</u>	<u>35,642</u>

Trade receivables are due within 30 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 29(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(h)(i)).

The movement in the allowance for doubtful debt during the year, including both specific and collective loss components, is as follows:

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April	326	136
Impairment loss recognised (<i>note 5(c)</i>)	552	362
Reversal of impairment loss (<i>note 4</i>)	(185)	(172)
At 31 March	<u>693</u>	<u>326</u>

At 31 March 2009, the Group's trade receivables of HK\$693,000 (2008: HK\$326,000) were individually determined to be impaired. The individually impaired receivables related to invoices in disputes and management assessed that the chance of recovery is remote. Consequently, specific allowance for doubtful debts of HK\$693,000 (2008: HK\$326,000) was recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	31,976	30,689
Less than 1 month past due	1,505	4,518
1 to 2 months past due	67	136
More than 2 months past due but less than 4 months past due	75	46
More than 4 months but less than 12 months past due	379	186
More than 12 months past due	323	67
	<u>2,349</u>	<u>4,953</u>
	<u><u>34,325</u></u>	<u><u>35,642</u></u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

19. AMOUNTS DUE FROM/TO RELATED PARTIES

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from minority shareholders	15,148	17,482
Amounts due from related companies (<i>note</i>)	6,354	5,718
	<u>21,502</u>	<u>23,200</u>
Amount due to a minority shareholder	<u><u>887</u></u>	<u><u>—</u></u>

Note: A director and a key management personnel of certain subsidiaries has beneficial interest in each of the respective related company.

The amounts due from/to related parties are unsecured, interest free and repayable on demand.

20. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank deposits	5,678	5,539	—	—
Cash of bank and in hand	24,310	44,954	1,203	51
	<u>29,988</u>	<u>50,493</u>	<u>1,203</u>	<u>51</u>

Included in the cash at bank was a deposit of HK\$5,678,000 (2008: HK\$5,539,000) pledged with a bank in respect of bank facilities granted to the Group (see note 21).

21. BANK LOANS, SECURED

At 31 March 2009, the bank loans were repayable as follows:

	The Group	
	2009	2008
	HK\$'000	HK\$'000
Within one year	<u>22,546</u>	<u>22,131</u>

At 31 March 2009, the Group had revolving bank loan facilities of HK\$23,278,000 (2008: HK\$22,711,000) upon which interest was charged at rate of 5.35% to 5.44% per annum (2008: 6.57% per annum) and were secured by:

- (i) a corporate guarantee given by the Company, a minority shareholder and a staff of the Group (2008: a corporate guarantee given by the Company and a staff of the Group);
- (ii) pledged bank deposits of HK\$5,678,000 (2008: HK\$5,539,000); and
- (iii) properties owned by certain staff of the Group (2008: properties owned by certain staff of the Group).

The amount utilised by the Group as at 31 March 2009 under the above banking facilities was HK\$22,546,000 (2008: HK\$22,131,000).

Further details of the Group's management of liquidity risk are set out in note 29(b).

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors	14,508	15,004	—	—
Other payables and accrued charges	9,203	21,699	923	810
	<u>23,711</u>	<u>36,703</u>	<u>923</u>	<u>810</u>

All of the trade and other payables are expected to be settled within one year or are repayable on demand. Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group	
	2009	2008
	HK\$'000	HK\$'000
Due within 1 month or on demand	14,416	14,347
Due after 1 month but within 3 months	84	644
Due after 3 months but within 12 months	8	13
	<u>14,508</u>	<u>15,004</u>

23. AMOUNT DUE TO A DIRECTOR

The amount due to a director of the Company, Dr. Cheung Yuk Shan, Shirley, is unsecured, interest free and repayable on demand.

24. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2009, the Group had obligations under finance leases repayable as follows:

	The Group			
	2009		2008	
	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>
Within 1 year	1,141	1,208	302	320
After 1 year but within 2 years	791	805	—	—
	<u>1,932</u>	2,013	<u>302</u>	320
<i>Less: total future interest expenses</i>		<u>(81)</u>		<u>(18)</u>
Present value of lease obligations		<u>1,932</u>		<u>302</u>

At 31 March 2009, a corporate guarantee was given by a related company in respect of the finance lease facilities of approximately HK\$2,300,000 (2008: HK\$Nil) granted to a subsidiary (see note 31(a)).

At 31 March 2008, the Company had given a corporate guarantee to a finance company in respect of the finance lease facilities of approximately HK\$1,748,000. The obligations under such finance leases were fully repaid during the year ended 31 March 2009 by the Group and, accordingly, the Company was released from its guarantee (see note 31(b)).

25. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
PRC Enterprise Income Tax		
— Provision for the year (<i>note 6(a)</i>)	1,329	1,684
— Provisional tax paid	<u>(1,006)</u>	<u>(1,487)</u>
	<u>323</u>	<u>197</u>

(b) Deferred tax — the Group

(i) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Depreciation in excess of the related depreciation allowances <i>HK\$'000</i>	Other temporary differences <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2007	—	—	—
Charged to profit or loss	(53)	167	114
Effect of changes in tax rates	13	162	175
Under-provision in prior years	—	2,752	2,752
	<u>(40)</u>	<u>3,081</u>	<u>3,041</u>
At 31 March 2008	(40)	3,081	3,041
At 1 April 2008	(40)	3,081	3,041
Charged to profit or loss	27	(370)	(343)
Exchange adjustments	—	74	74
	<u>(13)</u>	<u>2,785</u>	<u>2,772</u>
At 31 March 2009	(13)	2,785	2,772

(ii) Deferred tax assets not recognised:

At 31 March 2009, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$21,547,000 (2008: HK\$16,428,000) and deductible temporary differences of HK\$957,000 (2008: HK\$701,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in relevant tax jurisdiction and entity. Of the total tax losses, HK\$5,621,000 (2008: HK\$2,557,000) will be expired within 5 years and the remaining tax losses of HK\$15,926,000 (2008: HK\$13,871,000) have no expiry date under the current tax legislation.

Deferred tax liabilities not recognised:

At 31 March 2009, the Group has not recognised insignificant deferred tax liabilities relating to temporary differences of HK\$872,000 (2008: HK\$229,000).

(iii) Deferred tax — The Company

No deferred tax assets or liabilities have been made in the financial statements as the Company does not have any significant temporary differences. The Company has not recognised deferred tax assets in respect of cumulative tax losses of HK\$2,619,000 (2008: HK\$2,061,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the tax jurisdiction. The tax losses do not expire under current tax legislation.

26. DEFINED CONTRIBUTION RETIREMENT PLANS

The Group operates the Mandatory Provident Fund Scheme (“MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance (the “Ordinance”). The scheme is administered by an independent trustee.

Under the MPF Scheme, certain subsidiaries of the Group and the eligible employees make monthly mandatory contributions to the scheme at 5% of the employees’ relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. The mandatory contributions by each party are subject to a maximum of HK\$1,000 per month. Contributions to the scheme vest immediately upon the completion of service in the relevant service period.

At 31 March 2009, certain employees of the Group had completed the required number of years of service under the Ordinance and are eligible for long service payments on termination of their employment. The Group is only liable to make such payments when the termination meets the required circumstances specified in the Ordinance and the employees’ entitlement is not covered by the aforesaid provident fund. At 31 March 2009, the Group’s contributions to the provident funds and the accrued interest thereon exceeded the potential liabilities should the required circumstances specified in the Ordinance be met.

The Group’s subsidiaries in the PRC also participate in defined contribution retirement schemes covering its full-time PRC employees. The schemes are administered by the relevant government authorities in the PRC. The Group and the PRC employees are required to make contributions based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC and the relevant government authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group’s subsidiaries in the PRC.

27. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has adopted a share option scheme (the “Share Option Scheme”) on 4 November 2003. The purpose of the Share Option Scheme is to enable the Company to grant options to eligible participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries. Eligible participants of the Share Option Scheme include full-time or part-time employees, executives or officers (including executive, non-executive directors and independent non-executive directors) of the Company and/or any of its subsidiaries and any supplies, consultants, agents or advisers who, in the sole opinion of the Board, have contributed to the Company and/or such subsidiaries.

Share options are granted to the eligible participants at nil consideration. The options are exercisable from the date of grant within a period ranging from 5.0 to 9.2 years of respective option plans. Each option gives the holder the right to subscribe for one ordinary share in the Company.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option plans of the Company at any time shall not exceed 30% of the shares in issue from time to time.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option plans of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period up to the date of grant in excess of 1% of the number of shares in issue as at the date of grant, are subject to the Company issuing a circular and the approval from the Company's shareholders in a general meeting.

The exercise price for a share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The period during which an option may be exercised will be determined by the Board as its absolute discretion, save that no option may be exercised more than five years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme.

- (a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Contractual life of options
Options granted to directors:		
— on 10 September 2004	10,000,000	9.2 years
Options granted to employees:		
— on 2 September 2004	1,000,000	5.0 years
— on 20 May 2005	800,000	5.0 years
— on 6 September 2005	12,890,000	5.0 years
	<hr/> 14,690,000	
Total share options	<hr/> 24,690,000 <hr/>	

- (b) The number and weighted average exercise prices of share options are as follows:

	2009		2008	
	Weighted average exercise price <i>HK\$</i>	Number of options	Weighted average exercise price <i>HK\$</i>	Number of options
Outstanding at the beginning of the year	0.499	24,690,000	0.496	30,090,000
Forfeited during the year	—	—	0.486	(5,400,000)
Outstanding at the end of the year	0.499	<u>24,690,000</u>	0.499	<u>24,690,000</u>
Exercisable at the end of the year	0.499	<u>24,690,000</u>	0.499	<u>24,690,000</u>

The options outstanding at 31 March 2009 had an exercise price in the range of HK\$0.487 to HK\$0.534 (2008: HK\$0.487 to HK\$0.534) and a weighted average remaining contractual life of 2.66 years (2008: 3.66 years).

- (c) **Fair value of share options and assumptions**

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black Scholes model.

Fair value of share options and assumptions

	Date of grant		
	10 September 2004	20 May 2005	6 September 2005
Fair value at measurement date	HK\$0.142	HK\$0.157	HK\$0.127
Share price	HK\$0.600	HK\$0.510	HK\$0.480
Exercise price	HK\$0.512	HK\$0.534	HK\$0.487
Expected volatility (expressed as weighted average volatility used in the modelling under Black Scholes model)	55.79%	58.41%	53.16%
Option life (expressed as weighted average volatility used in the modelling under Black Scholes model)	9.2 years	5.0 years	5.0 years
Expected dividends	3.85%	3.73%	3.96%
Risk-free interest rate	2.30%	2.50%	2.50%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

There were no market conditions associated with the share option grants.

28. CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Merger reserve	Exchange reserve	Share-based payment reserve	The PRC statutory surplus reserve	Capital reserve	Accumulated losses	Total	Minority interests	Total equity
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007											
— as previously reported	6,669	45,342	(3,652)	11	1,757	444	100	(41,599)	9,072	16,636	25,708
— prior period error in respect of equity-settled share-based transactions	28(d)(iv)	—	—	—	1,558	—	—	(1,558)	—	—	—
— as restated	6,669	45,342	(3,652)	11	3,315	444	100	(43,157)	9,072	16,636	25,708
Issue of shares	28(c)(ii)	2,930	47,146	—	—	—	—	—	50,076	—	50,076
Share issue expenses		—	(1,562)	—	—	—	—	—	(1,562)	—	(1,562)
Realisation of merger reserve upon disposal of a subsidiary in prior year		—	—	15	—	—	—	—	15	—	15
Exchange differences on translation of the financial statements of overseas subsidiaries		—	—	—	664	—	—	31	695	3,082	3,777
Appropriation to the PRC statutory surplus reserve		—	—	—	—	—	340	—	(340)	—	—
Capital injection from minority shareholders		—	—	—	—	—	—	—	—	7,246	7,246
Realisation of capital reserve		—	—	—	—	—	(100)	—	(100)	—	(100)
Profit for the year		—	—	—	—	—	—	(55)	(55)	1,894	1,839
At 31 March 2008	9,599	90,926	(3,637)	675	3,315	784	—	(43,521)	58,141	28,858	86,999
At 1 April 2008	9,599	90,926	(3,637)	675	3,315	784	—	(43,521)	58,141	28,858	86,999
Exchange differences on translation of financial statements of overseas subsidiaries		—	—	—	3,618	—	—	—	3,618	(1,172)	2,446
Loss for the year		—	—	—	—	—	—	(30,651)	(30,651)	(3,808)	(34,459)
At 31 March 2009	9,599	90,926	(3,637)	4,293	3,315	784	—	(74,172)	31,108	23,878	54,986

(b) The Company

		Share capital	Share premium	Share-based payment reserve	Accumulated losses	Total equity
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007						
— as previously reported		6,669	45,342	1,757	(46,659)	7,109
— prior period error in respect of equity-settled share-based transactions	28(d)(iv)	—	—	1,558	(1,558)	—
— as restated		6,669	45,342	3,315	(48,217)	7,109
Issue of shares	28(c)(ii)	2,930	47,147	—	—	50,077
Share issue expenses		—	(1,562)	—	—	(1,562)
Loss for the year		—	—	—	(490)	(490)
At 31 March 2008		9,599	90,927	3,315	(48,707)	55,134
At 1 April 2008		9,599	90,927	3,315	(48,707)	55,134
Loss for the year		—	—	—	(170)	(170)
At 31 March 2009		9,599	90,927	3,315	(48,877)	54,964

(c) Share capital

(i) *Authorised and issued share capital*

		2009		2008	
	Note	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Authorised:					
Ordinary shares of HK\$0.01 each		1,500,000	15,000	1,500,000	15,000
Ordinary shares, issued and fully paid:					
At 1 April		959,880	9,599	666,900	6,669
Issue of shares	28(c)(ii)	—	—	292,980	2,930
At 31 March		<u>959,880</u>	<u>9,599</u>	<u>959,880</u>	<u>9,599</u>

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

(ii) *Issue of shares*

Pursuant to placing agreements dated 11 April 2007 and 12 July 2007, 133,000,000 and 159,980,000 new ordinary shares of HK\$0.01 each were issued to an independent third party at HK\$0.16 and HK\$0.18 each for a consideration of HK\$21,280,000 and HK\$28,796,000 respectively. Of the total consideration of HK\$50,076,000, HK\$2,930,000 was credited to share capital and the balance of HK\$47,146,000 was credited to share premium account.

(iii) *Terms of unexpired and unexercised share options at balance sheet date*

Exercise period	Exercise price	2009 and 2008 Number
2 September 2004 to 1 September 2009	HK\$0.489	1,000,000
10 September 2004 to 3 November 2013	HK\$0.512	10,000,000
20 May 2005 to 19 May 2010	HK\$0.534	800,000
6 September 2005 to 5 September 2010	HK\$0.487	12,890,000
		<u>24,690,000</u>

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 27.

(d) Nature and purpose of reserves**(i) Share premium reserve**

Under the Companies Law (Revised) of the Cayman Islands, the fund in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Merger reserve

The merger reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired by the Company through exchange of shares under a group reorganisation scheme on 4 November 2003. Further details are set out in the Company's prospectus dated 10 November 2003.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in note 2(r).

(iv) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to the eligible participants of the Share Option Scheme recognised in accordance with the accounting policy adopted for share-based payments in note 2(n)(ii).

The prior period error in respect of equity-settled share-based payment transactions amounting to HK\$1,558,000 represented the fair value of certain share options which had been granted in 2005 to the eligible participants (including directors, employees and advisers) under the Company's Share Option Scheme. This amount had been corrected retrospectively, in accordance with Hong Kong Financial Reporting Standard 2 "Share-based payment", by increasing the Group's and the Company's opening balance of accumulated losses as of 1 March 2007 by HK\$1,558,000 and with the corresponding increase in share-based payment reserve.

(v) PRC statutory surplus reserve

Pursuant to the laws and regulations governing the PRC enterprises, a PRC subsidiary of the Group, which is a sino-foreign joint-venture enterprise, is required to allocate at least 10% of their after-tax profit but before dividend distribution to the general reserve until the reserve has reached 50% of their registered capital. The general reserve can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. There was no appropriation during the year (2008: HK\$340,000).

The enterprise expansion fund can only be used to increase capital upon approval by the relevant authority. Appropriation to enterprise expansion fund is at the discretion of the board of directors of the PRC subsidiaries. There was no appropriation during the year (2008: HK\$Nil).

The staff welfare and bonus fund can only be used for the welfare of the PRC subsidiaries' employees. Appropriation to the staff welfare and bonus fund is at the discretion of the board of directors of the PRC subsidiaries. For Hong Kong reporting purposes, this appropriation is charged to expenses and included in creditors and accrued charges in the consolidated financial statements.

(e) Distributability of reserves

At 31 March 2009 and 2008, the aggregate amount of reserves is not available for distribution to equity shareholders of the Company as computed in accordance with the Companies Law (Revised) of the Cayman Islands.

(f) Capital management

The Group's primarily objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes judgements to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes bank loans, trade payables, other payables and accrued charges, amount due to a related party, amounts due to subsidiaries and obligations under finance leases) less cash and cash equivalents. Adjusted capital comprises all components of equity and amount due to a director.

During 2009, the Group's strategy, which was unchanged from 2008, was to maintain the net-debt-to adjusted capital ratio of no more than 24% (2008: 10%). In order to maintain or adjust the ratio, the Group may issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio at 31 March 2009 and 2008 was as follows:

	The Group		The Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities:				
Bank loans, secured	22,546	22,131	—	—
Trade payables	14,508	15,004	—	—
Other payables and accrued charges	9,203	21,699	923	810
Amount due to a related party	887	—	—	—
Amounts due to subsidiaries	—	—	3,852	4,164
Obligations under finance leases	1,141	302	—	—
	<u>48,285</u>	<u>59,136</u>	<u>4,775</u>	<u>4,974</u>
Non-current liabilities:				
Obligations under finance leases	791	—	—	—
Total debt	49,076	59,136	4,775	4,974
Less: Cash and cash equivalents	<u>(29,988)</u>	<u>(50,493)</u>	<u>(1,203)</u>	<u>(51)</u>
Net debt	<u>19,088</u>	<u>8,643</u>	<u>3,572</u>	<u>4,923</u>
Total equity	54,986	86,999	54,964	55,134
Amount due to a director	<u>24,836</u>	—	<u>25,174</u>	—
Adjusted capital	<u>79,822</u>	<u>86,999</u>	<u>80,138</u>	<u>55,134</u>
Net debt-to-adjusted capital ratio	<u>24%</u>	<u>10%</u>	<u>4%</u>	<u>9%</u>

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

29. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk and concentration risk

The Group's credit risk is primarily attributable to trade and other receivables, amounts due from related parties and cash and cash equivalents. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

In respect of trade receivables, management has a credit policy in place and the exposure to the credit risk is monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers. As such, management considers the aggregate risks arising from the possibility of credit losses are limited and to be acceptable.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 7% (2008: 12%) and 25% (2008: 33%) of the total trade receivables was due from the largest customer and the five largest customers respectively. Management does not expect any significant losses from trade debtors that have not been provided for other than impairment loss on bad and doubtful debt as set out in note 18(b).

As at 31 March 2009, the Group's other receivables comprise principally advances to business partners, prepayments for the set up of new slimming projects in the PRC, advances to staff, trade deposits, prepayment for the acquisition of a trade mark totalling to HK\$12,089,000 (2008: HK\$21,529,000). Should these parties default in settling the payments and/or providing services, the Group may suffer financial losses. Management does not expect any significant losses from these other debtors that have not been provided for other than the impairment loss on bad and doubtful debt as set out in note 18(i). The directors consider that the carrying amounts are fully recoverable.

In respect of the amounts due from related parties amounting to HK\$21,502,000 as at 31 March 2009 (2008: HK\$23,200,000), should these parties default in settling the payments, the Group may suffer financial losses. However, the directors consider that these amounts are fully recoverable.

Substantially all the Group's cash and cash equivalents are deposited in financial institutions in Hong Kong and the PRC. The credit risk on liquid funds is limited as the majority of counterparties are financial institutions with high credit ratings assigned by international credit rating agencies and stated-controlled financial institutions with good reputations.

Except for the financial guarantees given by the Company in favour of its subsidiary as set out in note 21, the Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it

maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities which are based on the contractual undiscounted cash flows (including interest payments, computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

(i) *The Group*

	2009				2008		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans, secured	22,546	(22,546)	(22,546)	—	22,131	(22,131)	(22,131)
Trade payables	14,508	(14,508)	(14,508)	—	15,004	(15,004)	(15,004)
Other payables and accrued charges	9,203	(9,203)	(9,203)	—	21,699	(21,699)	(21,699)
Amount due to a director	24,836	(24,836)	(24,836)	—	—	—	—
Amount due to a related party	887	(887)	(887)	—	—	—	—
Obligations under finance leases	1,894	(1,932)	(1,141)	(791)	302	(302)	(302)
	<u>73,874</u>	<u>(73,912)</u>	<u>(73,121)</u>	<u>(791)</u>	<u>59,136</u>	<u>(59,136)</u>	<u>(59,136)</u>

(ii) *The Company*

	2009			2008		
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables and accrued charges	923	(923)	(923)	810	(810)	(810)
Amount due to a director	25,174	(25,174)	(25,174)	—	—	—
Amounts due to subsidiaries	3,852	(3,852)	(3,852)	4,164	(4,164)	(4,164)
	<u>29,949</u>	<u>(29,949)</u>	<u>(29,949)</u>	<u>4,974</u>	<u>(4,974)</u>	<u>(4,974)</u>

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank deposits, bank loans and obligations under finance leases. Borrowings issued at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net deposits (being interest-bearing financial liabilities less bank deposits) at the balance sheet date.

	The Group			
	2009			2008
	Effective interest rate			Effective interest rate
	%	HK\$'000		%
				HK\$'000
Variable rate deposits:				
Bank deposits and cash at bank	0.36%	20,290		0.59%
				41,009
Fixed rate deposit:				
Bank deposits	2.25%	5,678		—
				—
Fixed rate borrowings:				
Bank loans, secured	5.42%	(22,546)		6.57%
Obligations under finance leases	4.72%	(1,932)		12.50%
				(302)
Total net deposits		<u>1,490</u>		<u>18,576</u>

(ii) Sensitivity analysis

At 31 March 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses by approximately HK\$15,000 (2008: increase/decrease the Group's profit after tax and accumulated losses by approximately HK\$189,000). Other components of equity would not be affected (2008: HK\$Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

(d) Foreign currency risk

The Group is not exposed to significant currency risk as most sale, income, purchases and expenses are denominated in the functional currency of the operations to which they relate.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2009 and 2008.

(f) Estimation of fair values

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

(i) Interest-bearing finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(ii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

30. COMMITMENTS

- (a) Capital commitment outstanding at 31 March 2009 not provided for in the financial statements was as follows:

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised and contracted for		
— capital injection into a jointly controlled entity	6,000	—
— acquisition of property, plant and equipment	2,378	190
	8,378	190
	8,378	190

- (b) At 31 March 2009, the Group's share of capital commitments of its jointly controlled entities amounted to HK\$166,000 (2008: HK\$Nil).

- (c) At 31 March 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	2009		2008	
	Properties and display locations <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Properties and display locations <i>HK\$'000</i>	Equipment <i>HK\$'000</i>
Within 1 year	17,804	28	16,146	233
After 1 year but within 5 years	28,377	—	19,296	104
After 5 years	17,717	—	14,219	—
	<u>63,898</u>	<u>28</u>	<u>49,661</u>	<u>337</u>

The Group is the lessee in respect of certain properties, display locations and items of equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every two to three years to reflect market rental. None of the leases includes contingent rentals.

31. CONTINGENT ASSETS AND LIABILITIES

(a) Financial guarantee granted

At 31 March 2009, a corporate guarantee was given by a related company in respect of the finance lease facilities of approximately HK\$2,300,000 (2008: HK\$Nil) granted to a subsidiary (see note 24).

The guarantee was issued by the related company at nil consideration. The directors consider it unlikely that a claim will be made against the financier under this guarantee and therefore no asset is recognised accordingly.

(b) Financial guarantees issued

As at 31 March 2009, the Company has issued a corporate guarantee amounting to approximately RMB15,000,000 (equivalent to HK\$17,033,000) (2008: RMB15,000,000 (equivalent to HK\$16,618,000)) to a bank in respect of banking facilities granted to a subsidiary as 51% owned by the Group (see note 21).

At 31 March 2008, the Company had given a corporate guarantee to a finance company in respect of the finance lease facilities of approximately HK\$1,748,000 granted to a subsidiary. The obligations under such finance leases were fully repaid during the year ended 31 March 2009 by the Group and, accordingly, the Company was released from its guarantee (see note 24).

The guarantees were issued by the Group and Company at nil consideration. The transactions were not at arm's length, and it is not possible to measure reliably the fair value of these transactions in accordance with HKAS 39, Financial Instruments: Recognition and Measurement, had they been at arm's length. Accordingly, the guarantees have not been accounted for as financial liabilities and measured at fair value.

As at the balance sheet date, the directors do not consider it is probable that a claim will be made against the Group and Company under any of the guarantees. The maximum liability of the Group and Company at the balance sheet date under the guarantees issued is the facilities drawn down by the subsidiaries of HK\$17,033,000 (2008: HK\$16,893,000) and HK\$17,033,000 (2008: HK\$16,618,000) respectively.

(c) Contingent liability in respect of a legal claim

In March 2009, a customer instigated a legal proceeding against a subsidiary, as 51% owned by the Group, for non-performance of a sale contract by that subsidiary and claimed for the recovery of full payment of the goods plus interest payment and the associated legal costs incurred by the customer totalling RMB1,090,000 (equivalent to approximately HK\$1,238,000).

At date of approval of these financial statements, the result of the legal proceeding is not yet known. Based on legal advice from the Group's counsel, the directors believe that this claim has no merits and, accordingly, no provision for such claim have been made in these financial statements as at 31 March 2009.

32. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and the highest paid employees as disclosed in note 8, is as follows:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and other benefits	5,592	5,752
Contributions to defined contribution retirement plan	60	60
	<u>5,652</u>	<u>5,812</u>

Total remuneration is included in "Staff costs" (see note 5(b)).

(b) Financial guarantee granted

As set out in note 31(a), a financial guarantee was given by a related company, of which Mr. Cheung Ka Heng, Frankie, is a shareholder.

(c) Other related party transactions

During the year ended 31 March 2009, the Group entered into the following material related party transactions:

		The Group	
		2009	2008
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loan interest expense paid to a director	<i>(i)</i>	—	32
Sale of goods to a minority shareholder	<i>(ii)</i>	5,335	5,180
		<u> </u>	<u> </u>

Note:

- (i) Interest expense was paid by the Group in connection with the loan payable to a director which had been fully repaid during the year ended 31 March 2008.
- (ii) Sales to a minority shareholder were made at similar terms as the Group grants to other customers.

Balances with related parties are disclosed in the balance sheet and in notes 15, 16, 19 and 23.

33. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the correction of prior period error as set out in note 28(d)(iv).

Net foreign exchange loss which is incidental to the main revenue generating activities, was included in as “General and administrative expenses” in 2008. To conform with the current year’s presentation, its was reclassified as “Other net (loss)/income” in the comparative figures. The directors consider that this revised presentation more appropriately reflects the nature of this item.

34. ACCOUNTING ESTIMATES AND JUDGEMENTS

The methods, estimates and judgements the directors used in applying the Group’s accounting policies have a significant impact on the Group’s financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. The critical accounting judgements in applying the Group’s accounting policies are described below.

(a) Depreciation

The Group determines the estimated useful lives and related depreciation charge for the property, plant and equipment, after taking into account the estimated residual value. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairments

In considering the impairment loss that may be required for certain property, plant and equipment, investments in subsidiaries, interests in jointly controlled entities and goodwill, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment loss would affect the operating results in the year and in future years.

(c) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for tax losses not yet used and temporary deduction differences. As those deferred tax assets can only be recognised to the extent that it is probable that future profit will be available against which the unused tax credit can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(d) Inventory provision

The Group performs regular reviews of the carrying amounts of inventories with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in customers' performance, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Share-based payments

The estimate of the fair value of the share options granted to employees and other eligible participants measured by professional valuers and the directors' estimate based on the Black Scholes model with modification to reflect the impact of vesting periods

and exercise patterns on the option value. The accuracy of the above estimations could affect the amount of share-based payments transactions recognised in the income statement.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2009

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2009 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
Amendment to HKAS 27	Consolidated and separate financial statements: Cost of an investment in a subsidiary, jointly controlled entity or associate	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
Amendment to HKFRS 2	Share-based payment: Vesting conditions and cancellations	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
Amendments to HKFRS 7	Improving disclosures about financial instruments	1 January 2009
HKFRS 8	Operating segments	1 January 2009

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FINANCIAL AND TRADING PROSPECTS

For the year ended 31 March 2009, turnover amounted to approximately HK\$437,916,000, representing a slight decrease of 2% from approximately HK\$446,821,000 in the previous financial year. Such decrease was mainly due to the drop of sales of the Group's slimming centres in both Hong Kong and the PRC under extreme business environment. However, due to the contribution from distribution sales by Shanghai Dong Fang Ri Hua Sales Co. Ltd. has a satisfactory growth, the adverse impacts to the Group's turnover has been significantly compensated. For the year ended 31 March 2009, the turnover from such distribution business amounted to approximately HK\$364,985,000 (2008: approximately HK\$344,563,000), while the turnover generated from all the beauty, slimming and spa centres in Hong Kong and in the PRC amounted to approximately HK\$70,290,000 (2008: approximately HK\$99,935,000).

During the year ended 31 March 2009, the Group recorded a decrease of approximately HK\$23,546,000 in gross profit. The Group has incurred a loss attributable to equity shareholders of the Company of approximately HK\$30,651,000 (2008: approximately HK\$55,000). As mentioned before, the global economic meltdown which induced by the US financial crisis is the main reason of the backsliding performance. In order to weather the storm, the Group strengthened its existing policy of exercising tight control over all its costs, and reducing these wherever possible. During the year ended 31 March 2009, the administrative expenses (including impairment and write off of receivables) totalling amount to HK\$45,186,000. Apart from these expenses, the administrative expenses have been reduced from approximately HK\$39,106,000 of 2008 to approximately HK\$39,050,000. Being the leading beauty and slimming service provider, Sau San Tong is able to withstand the short term set back by refreshing change and diversification of business and continue to be the leader of the industry providing the most quality and professional services to its customers.

Looking ahead, we expect the existing slowdown in the global economy will continue until late of 2009. This will offer challenges but also unique opportunities for our businesses. The Group is financially strong and we have no investments in derivatives, bonds or structured financial products. Facing with extreme business environment, we are now actively developing new ideas and exploring new business opportunities, and we are highly confident to ride through it. Since we are well positioned to take advantage of this situation, the economic climate offers potential new opportunities which could enhance our growth and profitability in medium to long term.

INDEBTEDNESS

As at the close of business on 31 July 2009, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this Prospectus, the Group had total borrowings of approximately HK\$56,230,000, comprising (i) secured bank loans of approximately HK\$22,532,000, (ii) obligations under finance leases of approximately HK\$1,530,000 and (iii) unsecured borrowings of approximately HK\$32,168,000 which included an amount due to a director of approximately HK\$31,281,000, and an amount due to a related party of approximately HK\$887,000.

The bank loans were secured by pledged bank deposits of approximately HK\$5,678,000, guarantees from the Company, a minority shareholder and a staff of the Group; and leasehold properties owned by certain staff of the Group. The obligations under finance leases were also guaranteed by a related company.

As at the close of business on 31 July 2009, the Group had contingent liabilities in respect of a legal claim to the extent of approximately RMB1,090,000 (equivalent to approximately HK\$1,238,000) for alleged non-performance of a sale contract by a subsidiary.

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 31 July 2009, 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 leases 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 31 July 2009 up to and including the Latest Practicable Date.

WORKING CAPITAL

The Board, after due and careful enquiry, is of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's financial resources, including internally generated funds, available banking facilities and the estimated net proceeds of the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this Prospectus.

MATERIAL CHANGE

As disclosed in the announcement of the Company dated 7 August 2009, due to the impact of economic slowdown and the diminishing consumer sentiment, it is expected that the Group will suffer a drop in its turnover as well as its gross profit margin.

The Directors confirm that save as aforesaid there was no material adverse change in the financial or trading position of the Group since 31 March 2009, being the date of which the latest audited financial statements of the Group were made up.

**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 effect of the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer has taken place on 31 March 2009.

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 of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 March 2009 or any future date.

	Adjusted consolidated net tangible assets of the Group attributable to equity shareholders of the Company as at 31 March 2009 <i>HK\$'000</i> <i>(Note 1)</i>	Add: Estimated net proceeds from the Open Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity shareholders of the Company immediately after completion of the Open Offer <i>HK\$'000</i>
Based on 4,799,400,000 Offer Shares to be issued	<u>30,858</u>	<u>46,000</u>	<u>76,858</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity shareholders of the Company per Share as at 31 March 2009 <i>(Note 3)</i>			<u>HK3.21 cents</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity shareholders of the Company per Share immediately after completion of the Open Offer with 4,799,400,000 Offer Shares issued <i>(Note 4)</i>			<u>HK1.33 cents</u>

Notes:

- (1) It represents the consolidated net assets of the Group attributable to the equity shareholders of the Company of HK\$31,108,000 less the goodwill of HK\$250,000 as at 31 March 2009, which are extracted from the audited consolidated balance sheet as at 31 March 2009 as set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds for the Open Offer of HK\$46,000,000 is calculated based on 4,799,400,000 Offer Shares to be issued at the subscription price of HK\$0.01 per share after deduction of estimated related expenses.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity shareholders of the Company per Share prior to completion of the Open Offer is calculated based on HK\$30,858,000 divided by 959,880,000 Shares, being the number of Shares in issue as at 31 March 2009.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity shareholders of the Company per Share immediately after completion of the Open Offer is calculated based on HK\$76,858,000 divided by 5,759,280,000 Shares, comprising 959,880,000 Shares in issue as at 31 March 2009 and 4,799,400,000 Open Offer Shares to be issued.

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF
ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The following is the text of a report, prepared for the sole purpose of inclusion in this Prospectus, received from the independent reporting accountants, Baker Tilly Hong Kong Limited, Certified Public Accountants.

**BAKER TILLY**

HONG KONG LIMITED

CERTIFIED PUBLIC ACCOUNTANTS

香港天華會計師事務所有限公司

12th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong

香港干諾道中168-200號信德中心招商局大廈12樓

**Accountants' report on the unaudited pro forma statement of adjusted consolidated
net tangible assets to the Directors of Sau San Tong Holdings Limited**

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of Sau San Tong Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the proposed issue of open offer shares of the Company might have affected the financial information presented, for inclusion as Appendix II to the prospectus dated 1 September 2009 issued by the Company (the “Prospectus”). The basis of preparation of the unaudited pro forma statement of adjusted consolidated net tangible assets is set out on pages 93 and 94 to the Prospectus.

Respective responsibilities of Directors of the Company and reporting accountants

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group 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 Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by the paragraph 7.31(7) of the GEM Rules, on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group 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 statement of adjusted consolidated net tangible assets of the Group beyond that owned to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of adjusted consolidated net tangible assets has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

The unaudited pro forma statement of adjusted consolidated net tangible assets is for illustrative purpose only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 March 2009 or at any future date.

Opinion

In our opinion:

- a. the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been properly compiled by the Directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purpose of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 1 September 2009

Chan Kwan Ho, Edmond

Practising Certificate number P02092

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum”) and the articles of association (the “Articles”) of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 May, 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory

or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration

provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(ix) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe.
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares.
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine.
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution – majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a

special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three

members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the fact and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing

standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) percent per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 4 June, 2002.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by either an order of the Court or by a special resolution of its members; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being

voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. RESPONSIBILITY OF THE DIRECTORS

This Prospectus, 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:

- (a) the information contained in this Prospectus is accurate and complete in all material respects and is not misleading;
- (b) there are no other matters the omission of which would make any statement in this Prospectus misleading; and
- (c) all opinions expressed in this Prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL

(a) Share Capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and following completion of the Open Offer will be, as follows:

<i>Authorised</i>		<i>HK\$</i>
<u>1,500,000,000</u>	Shares as at the Latest Practicable Date	<u>15,000,000</u>
<u>1,500,000,000</u>		<u>15,000,000</u>
<i>Issued and to be issued as fully paid</i>		<i>HK\$</i>
959,880,000	Shares in issue as at the Latest Practicable Date	9,598,800
<u>4,799,400,000</u>	Offer Shares to be issued pursuant to the Open Offer (<i>Note</i>)	<u>47,994,000</u>
<u>5,759,280,000</u>		<u>57,592,800</u>

Note: Based on 959,880,000 Shares in issue as at the Latest Practicable Date on the basis of five (5) Offer Shares for every one (1) Share held and assuming no exercise of the outstanding Share Options.

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. All the Offer Shares which will be issued upon completion of the Open Offer will rank pari passu in all respects with each other and with all the Shares in issue as at the date of allotment and issue of the Offer Shares including as regards to all rights as to dividends, voting and return of capital. All the Offer Shares to be issued will be listed on the Stock Exchange.

(b) Share Options

As at the Latest Practicable Date, the Company has 24,690,000 outstanding Share Options which confer rights on holders to subscribe for 24,690,000 Shares. The Share Options were granted at consideration of HK\$1 (which was inadvertently stated at nil consideration in the annual reports of the Company for the two years ended 31 March 2009) on various dates to the Directors and employees of the Company under the share option scheme of the Company adopted on 4 November 2003, details of the exercise price and exercise period of the Share Options are as follows:

Grantees	Share Options held	Exercise price per Share	Exercise period
Dr. Cheung Yuk Shan, Shirley	5,000,000	HK\$0.512	10 September 2004 to 3 November 2013
Mr. Cheung Ka Heng, Frankie	5,000,000	HK\$0.512	10 September 2004 to 3 November 2013
Employees	14,690,000	Range from HK\$0.487 to HK\$0.534	5 years from the respective grant dates on 2 September 2004, 20 May 2005 and 6 September 2005

Save as disclosed above, as at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right on the holder thereof to subscribe for, convert or exchange into new Shares.

There is no arrangement under which future dividends will be waived or agreed to be waived.

There is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong from outside Hong Kong. Since the Group's assets and liabilities, revenue and payments are mainly denominated in Hong Kong dollars and Renminbi, the Group considers that it has no exposure to foreign exchange liabilities.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company or their respective associates in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) 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 and/or short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(a) Long positions in the Shares and the underlying Shares

Name of Directors	Corporate Interest	Personal Interest	Total	Approximate Percentage of Interest in the Company's issued share capital
Dr. Cheung Yuk Shan, Shirley (<i>Note 1</i>)	895,200,000	600,420,000	1,495,620,000	25.44%

Note 1:

Dr. Cheung holds 100% interest in Biochem Investments Limited ("Biochem"), a company incorporated in the British Virgin Islands with limited liability, and accordingly, Dr Cheung is deemed to be interested in the 895,200,000 Shares held by Biochem. The shareholding of Dr. Cheung has taken into account of the Shares undertaken to be subscribed by her under the Open Offer and the 5,000,000 Share Options held by her.

(b) Long position in underlying Shares of equity derivatives of the Company*Share Option Scheme*

The interests in the underlying Shares arise from Share Options granted to the Directors under the Share Option Scheme, details of which were as follows:

Name of Directors	Date of grant	Exercisable period	Exercise price per Share	Aggregate long position in underlying Shares	Approximate Percentage of Interest in the Company's issued share capita
Dr. Cheung Yuk Shan, Shirley	10 September 2004	10 September 2004 — 3 November 2013	HK\$0.512	5,000,000	0.52%
Mr. Cheung Ka Heng, Frankie	10 September 2004	10 September 2004 — 3 November 2013	HK\$0.512	5,000,000	0.52%

Note:

The above interest constitutes a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective associates has any personal, family, corporate or other interests or short positions in the Shares or the shares of the Company's associated (within the meaning of Part XV of SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by Directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following interests of which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept under Section 336 of the SFO or have notified to the Company were as follows:

Long Positions in Shares of the Company

Name	Notes	Capacity	Number of Shares held	Number of underlying Shares held	Total interest in Shares and underlying Shares	Percentage of the issued share capital of the Company
Dr. Cheung Yuk Shan, Shirley	1	Beneficial owner	1,495,620,000	5,000,000	1,500,620,000	25.53%
Biochem	2	Beneficial owner	895,200,000	—	895,200,000	15.23%
GEM Hero		Beneficial owner	144,000,000	—	144,000,000	15.00%
Kingston Securities	3	Interest of Underwritten Shares	—	2,931,500,000	2,931,500,000	49.87%
Ms. Chu Yuet Wah	4	Interest of controlled corporation	18,390,000	2,931,500,000	2,949,890,000	50.19%
Ms. Ma Siu Fong	4	Interest of controlled corporation	—	2,931,500,000	2,931,500,000	49.87%

Note 1: Dr. Cheung holds 100% interest in Biochem and accordingly, Dr. Cheung is deemed to be interested in the 895,200,000 Shares held by Biochem. The shareholding of Dr. Cheung has taken into account of the Shares undertaken to be subscribed by her under the Open Offer and the 5,000,000 Share Options held by her.

Note 2: The shareholding of Biochem has taken into account of the Shares undertaken to be subscribed by Dr. Cheung through it under the Open Offer.

Note 3: The Open Offer was proposed by the Company and detailed in the Announcement and the Clarification Announcement. Pursuant to the Underwriting Agreement, Kingston Securities agreed to underwrite not more than 2,931,500,000 Offer Shares. Accordingly Kingston Securities is deemed to be interested in an aggregate of 2,931,500,000 Shares.

Note 4: Ms. Chu Yuet Wah and Ms. Ma Siu Fong own 51% and 49% interest in Kingston Securities respectively. Ms. Chu Yuet Wah also held 18,390,000 Shares through Best China Limited, which is wholly and beneficially owned by her. Accordingly, each of Ms. Chu Yuet Wah and Ms. Ma Siu Fong is deemed to be interested in 2,931,500,000 Shares held by Kingston Securities.

Saved as disclosed above, as at the Latest Practicable Date, no person, other than the Directors of the Company and the chief executive of the Group whose interests are set out in the section “Directors’ and Chief Executive’s Interests” above, had registered an interest or short position in the share capital, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

5. MATERIAL CONTRACTS

Save as the Underwriting Agreement, there is no other contract (not being contracts entered into in the ordinary course of business) has been entered into by any member of the Group within the two years immediately preceding the date of this Prospectus that are or may be material.

6. DIRECTORS’ INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the businesses of the Group.

None of the Directors nor the expert(s) referred to in paragraph headed “Experts and Consents” of this Appendix has any direct or indirect interests 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 2009, being the date to which the latest published audited consolidated accounts of the Group were made up.

7. DIRECTORS’ SERVICE CONTRACTS

Dr. Cheung Yuk Shan, Shirley and Mr. Cheung Ka Heng, Frankie each has entered into a service contract with the Company for a term of three years commencing from 4 November 2003 and will continue thereafter for successive term of one year unless and until terminate by not less than six months’ notice in writing served by either party to the other provided that such notice period shall not expire at any time during the first 12 calendar months of the term of the appointment.

Each of these executive Directors is entitled to a basic salary and a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 10% of the audited consolidated net profit of the Group (after taxation and minority interest but before extraordinary and exceptional items of the Group) in respect of the financial year.

The independent non-executive Directors have been appointed for a term expiring on 31 July 2008 with the term being renewed for a further term of one year commencing from 1 August 2008. Save for a total fee of approximately HK\$100,000 for all of them for the year ended 31 March 2009, the independent non-executive Directors are not entitled to any other remuneration.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group other than contracts expiring or determinable by the Company or the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholders or their respective associates had any interests in any business which competes or may compete with the business of the Group.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

10. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice, which are contained or referred to in this Prospectus:

Name	Qualification
Baker Tilly Hong Kong Limited	Certified Public Accountants

Baker Tilly Hong Kong Limited has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its letter dated 1 September 2009 and references to its names, in the form and context in which they appear. As at the Latest Practicable Date, Tilly Hong Kong Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

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:	12th Floor, Prestige Tower, Nos. 23–25 Nathan Road, Tsimshatsui, Kowloon, Hong Kong
Principal share registrars and transfer office in the Cayman Islands:	HSBC Trustee (Cayman) Limited, P.O. Box 484 HSBC House, 68 West Bay Road, Grand Cayman, KY1-1106, Cayman Islands
Hong Kong branch share registrars and transfer office:	Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wahchai, Hong Kong
Authorised Representatives:	Dr. Cheung Yuk Shan, Shirley Mr. Cheung Ka Heng, Frankie
Principal Banker:	Nanyang Commercial Bank, Yaumatei Branch, 309 Nathan Road, Kowloon

	The Bank of East Asia Limited, One Peking Branch, Shop 202 & 203, L/F, One Peking, 1 Peking Road, Tsim Sha Tsui, Kowloon
Auditors:	Baker Tilly Hong Kong Limited, Certified Public Accountants, 12th Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong
Financial Adviser:	Kingston Corporate Finance Limited, Suite 2801, 28th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Underwriter:	Kingston Securities Limited, Suite 2801, 28/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Legal adviser:	<i>On Hong Kong law</i> Cheung, Tong & Rosa, Room 501, 5/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong <i>On Cayman Islands law</i> Conyers Dill & Pearman, Cricket Square, Hutchins Drive, Grand Cayman KY1-1111, Cayman Islands
Company secretary:	Mr. TSE Ching Leung
Qualified accountant:	Mr. TSE Ching Leung

12. MISCELLANEOUS

- (a) The compliance officer of the Company is Dr. Cheung Yuk Shan, Shirley who is the executive Director and chairman of the Company.
- (b) The secretary and the qualified accountant of the Company is Mr. Tse Ching Leung who is an associate member of Hong Kong Institute of Certified Public Accountants.

- (c) None of any part of the equity or debt securities of the Group is listed or dealt in or any other recognized stock exchange or on which listing or permission to deal is being or is proposed to be sought.
- (d) As at the Latest Practicable Date, save for the weakening financial performance as disclosed in the section headed “Material Change” in Appendix I to this Prospectus, the Directors were not aware of any significant event which had occurred to any business of the Company and within the Group since 31 March 2009, being the date to which the latest published accounts of the Group were made up of.
- (e) In case of inconsistency, the English text of the Prospectus shall prevail over the Chinese text.

13. DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Dr. Cheung Yuk Shan, Shirley

Dr. CHEUNG Yuk Shan, Shirley, aged 34, is the Chairman and Founder of the Group with the business address at 12th Floor, Prestige Tower, 23-25 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong. She established the Group nine years ago and successfully developed it to a group with over 400 staff. Dr. Cheung is responsible for the overall stewardship of the Group which includes directions and formulating strategies. Leading the Group to a new height, she achieved various accomplishments complimenting her management style and innovative promotional strategies. Dr. Cheung received the Honour Award of the Innovative Entrepreneur of the Year 2004 of the Hong Kong district, organised by the City Junior Chamber in May 2004. In November of the same year, 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. In 2006, Dr. Cheung was awarded as one of the World Outstanding Chinese. In 2009, she is awarded as one of the Top Ten Most Influential entrepreneur for China Brand Building by The Board of Ten Influential China Brands. Furthermore, she was invited to be one of the deputy chairmen of the “China Foreign Trade Council” and the honorary president of the “Federation of Beauty Industry (Hong Kong)”.

Mr. Cheung Ka Heng, Frankie

Mr. CHEUNG Ka Heng, Frankie, aged 36, is an Executive Director with the business address at 12th Floor, Prestige Tower, 23-25 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong. He is responsible for the business development and administration of the Group. Mr. Cheung holds a master degree in business administration from Americus University of the United States. 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. Mr. Cheung is the elder brother of Dr. Cheung Yuk Shan, Shirley.

Independent Non-Executive Directors***Mr. Hong Po Kui, Martin***

Mr. HONG Po Kui, Martin, aged 59, is an independent non-executive Director and joined the Group in June 2002 with the business address at 12th Floor, Prestige Tower, 23-25 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong. He is responsible for giving advices to the board of Directors and shareholders of the Company. 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 33 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 Simsen International Corporation Limited, Victory Group Limited and Fulbond Holdings Limited, companies listed on the Main Board of the Stock Exchange, as well as the commissioner of Hong Kong Road Safety Patrol.

Mr. Li Kuo Hsing

Mr. LI Kuo Hsing, aged 50, is an independent non-executive Director and joined the Group in June 2002 with the business address at 12th Floor, Prestige Tower, 23-25 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong. He 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, a company listed on the Main Board of the Stock Exchange.

Mr. Hui Yat Lam

Ms. HUI Yat Lam, aged 35, is an independent non-executive Director and joined the Group in March 2008 with the business address at 12th Floor, Prestige Tower, 23-25 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong. Ms. Hui is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Ms. Hui has over 10 years of experience in professional auditing, accounting and financial management. Ms. Hui was previously the qualified accountant and company secretary of Long Success International (Holdings) Limited, a company listed on GEM of the Stock Exchange.

Senior Management***Mr. Tse Ching Leung***

Mr. TSE Ching Leung, aged 36, is the Financial Controller, Qualified Accountant and Company Secretary of the Group with the business address at 12th Floor, Prestige Tower, 23-25 Nathan Road, Tsim Sha Tsui, Kowloon, Hong Kong. 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 ten years of accounting and auditing experience.

14. AUDIT COMMITTEE

The Company has established the audit committee in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are: to independent review and supervise the financial reporting process and internal control systems, to ensure good communications among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review quarterly, interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide advice on audit report, accounting policies and comments to all Directors.

The audit committee comprises three independent non-executive Directors including Mr. Hong Po Kui, Martin (Chairman of the audit committee), Mr. Li Kuo Hsing and Ms. Hui Yat Lam. During the year, the audit committee held four meetings to assess the effectiveness of internal control system, to review all draft annual, quarterly and interim financial reports, and to know about external auditors' statutory audit plan.

For the details of the member of the audit committee of the Company, please refer to sub-section headed “Directors and Senior Management” above.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 12th Floor, Prestige Tower, Nos. 23–25 Nathan Road, Tsimshatsui, Kowloon, Hong Kong:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2009;
- (c) the material contracts referred to under the paragraph headed “MATERIAL CONTRACTS” in this Appendix IV;
- (d) the service contracts referred to under the paragraph headed “DIRECTORS’ SERVICE CONTRACTS” in this Appendix IV;
- (e) the report from Baker Tilly Hong Kong Limited on unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which is set out on pages 95 to 97 of this Prospectus;
- (f) the written consent from Baker Tilly Hong Kong Limited as referred to in paragraph headed “Expert and Consent” of this Appendix;
- (g) the circular of the Company dated 14 August 2009 in relation to, among other things, the Open Offer;
- (h) this Prospectus; and
- (i) The Companies Law (2007 Revision) of the Cayman Islands.

16. BINDING EFFECT

The Prospectus Documents and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong.

Where an application is made in pursuance of any of such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Sections 44A and 44B of the Companies Ordinance, so far as applicable.

17. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of the Prospectus Documents having attached thereto all documents required to be condensed or attached to it (if any) has been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance.