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

If you have sold or transferred all your shares in Sau San Tong Holdings Limited (the "Company"), you should at once hand this circular, together with the enclosed form of proxy, 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.

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SAU SAN TONG HOLDINGS LIMITED

修身堂控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8200)

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; PROPOSED RIGHTS ISSUE OF NOT LESS THAN 893,857,500 RIGHTS SHARES AND NOT MORE THAN 1,171,771,134 RIGHTS SHARES OF HK\$0.01 EACH AT HK\$0.10 PER RIGHTS SHARE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company



Underwriter to the Rights Issue



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



Capitalised terms used in this cover have the same meanings as those defined in this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 38 of this circular. A letter from Fulbright Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 39 to 67 of this circular.

A notice convening the EGM to be held at 4th Floor, Sands Building, 17 Hankow Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 21 August 2014 at 12:00 noon is set out on pages 96 to 98 of this circular. If you are not able to attend the meeting, you are strongly urged to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

It should be noted that the Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to the Company at any time before the Latest Time for Termination to terminate its obligations thereunder on the occurrence of certain events including force majeure. These events are set out under the section headed "Termination of the Underwriting Agreement" on pages 8 to 9 of this circular. If the Underwriter terminates the Underwriting Agreement in accordance with the terms thereof, the Rights Issue will not proceed. In addition, the Rights Issue is conditional on all conditions set out on pages 21 to 22 of this circular being fulfilled or waived (as applicable). If such conditions are not fulfilled or waived (as applicable) in accordance with the Underwriting Agreement on or before the times and dates specified therein, all liabilities of the parties to the Underwriting Agreement shall cease and determine and no party shall have any claim against the other party save for any antecedent breach of the Underwriting Agreement and the Rights Issue will not proceed.

The Shares will be dealt in on an ex-rights basis on the Stock Exchange from Monday, 25 August 2014. The Rights Shares will be dealt with in their nil-paid form on the Stock Exchange from Friday, 5 September 2014 to Monday, 15 September 2014, both days inclusive. If the Underwriter terminates the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled or waived (as applicable) on or before the times and dates specified therein, the Rights Issue will not proceed. Any Shareholder or other person dealing in the Shares prior to the date on which the conditions of the Rights Issue are fulfilled or waived (as applicable), and/or dealing in the Rights Shares in their nil-paid form during the period as aforesaid, will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing existing Shares who is in doubt about his or her position is recommended to consult his or her own professional adviser.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at www.sausantong.com.

* For identification purpose only

6 August 2014

CHARACTERISTICS OF GEM

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 Rights Issue is set out below:

Latest time for lodging transfer of Shares in order to qualify for attendance and voting at the EGM	4:30 p.m. on Thursday, 14 August 2014
Register of members closes (both days inclusive)	Friday, 15 August 2014 to Thursday, 21 August 2014
Latest time for lodging form of proxy for the EGM (not less than 48 hours prior to the time of the EGM)	12:00 noon on Tuesday, 19 August 2014
Record date for attendance and voting at the EGM.....	Thursday, 21 August 2014
Expected date and time of the EGM	12:00 noon on Thursday, 21 August 2014
Announcement of results of the EGM	Thursday, 21 August 2014
Last day of dealings in Shares on cum-rights basis	Friday, 22 August 2014
First day of dealings in Shares on ex-rights basis	Monday, 25 August 2014
Latest time for lodging transfer of the shares to qualify for the Rights issue	4:30 p.m. on Tuesday, 26 August 2014
Register of members closes (both days inclusive)	Wednesday, 27 August 2014 to Tuesday, 2 September 2014
Record Date for Rights Issue	Tuesday, 2 September 2014
Despatch of Prospectus Documents	Wednesday, 3 September 2014
First day of dealing in nil-paid Rights Shares	Friday, 5 September 2014
Latest time for splitting of PAL	4:30 p.m. on Wednesday, 10 September 2014
Last day of dealings in nil-paid Rights Shares	Monday, 15 September 2014
Latest time for acceptance and payment for Rights Shares and application for excess Rights Shares	4:00 p.m. on Thursday, 18 September 2014

EXPECTED TIMETABLE

Latest time for the termination of the

Underwriting Agreement 4:00 p.m. on Friday, 19 September 2014

Announcement of results of acceptance and

excess application of the Rights Issue Thursday, 25 September 2014

Despatch of certificates for fully-paid

Rights Shares and refund cheques for wholly and
partially unsuccessful excess applications Friday, 26 September 2014

Expected first day of dealings in fully-paid Rights Shares Monday, 29 September 2014

Notes:

1. All references to time in this circular are references to Hong Kong time.
2. Dates or deadlines specified in this circular are for indicative purposes only and may be extended or varied. Any changes to the above timetable will be published or notified to the Shareholders as and when appropriate.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES AND APPLICATION AND PAYMENT FOR EXCESS RIGHTS SHARES

If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any local time before 12:00 noon on the Acceptance Date, but no longer in force after 12:00 noon, the latest time for acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares will be extended to 5:00 p.m. on the same business day.

If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Acceptance Date, the latest time for acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares will be rescheduled to 4:00 p.m. on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares and application and payment for excess Rights Shares does not take place on the Acceptance Date, the dates mentioned in this section may be affected. An announcement will be made by the Company on any change to the expected timetable as soon as practicable.

DEFINITIONS

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

“Acceptance Date”	18 September 2014 or such later date as may be agreed between the Underwriter and the Company, being the latest date for acceptance of, and payment for, the Rights Shares as described in the Prospectus
“Announcement”	the announcement of the Company dated 10 July 2014 regarding the Increase in Authorised Share Capital and the Rights Issue
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Biochem Investments”	Biochem Investments Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is wholly-owned by Dr. Cheung
“Board”	the board of Directors
“business day”	a day on which banks in Hong Kong are generally open for business (other than a Saturday, Sunday or public holiday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as amended or supplemented from time to time
“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 the GEM
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Cheung”	Dr. Cheung Yuk Shan, Shirley, the chairman of the Company and an executive Director
“Dr. Cheung’s Undertaking”	the irrevocable undertaking given by Dr. Cheung in favour of the Company and the Underwriter on 10 July 2014 pursuant to which Dr. Cheung undertook not to, inter alia, dispose of or transfer, or agree to dispose of or transfer, any Shares held by her and Biochem Investments from the date of the Underwriting Agreement to the Record Date
“EAF(s)” or “Excess Application Form(s)”	the form(s) of application to be issued to the Qualifying Shareholders for application of excess Rights Shares
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of approving, inter alia, the Increase in Authorised Share Capital and the Rights Issue
“Excluded Shareholder(s)”	Overseas Shareholders to whom the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Shares 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
“Existing Convertible Notes”	collectively, the Placing Convertible Notes and the Subscription Convertible Note

DEFINITIONS

“Fulbright Capital”	Fulbright Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	has the meaning ascribed thereto under the GEM Listing Rules
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Get Nice” or “Underwriter”	Get Nice Securities Limited, a corporation licensed to carry out business in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Increase in Authorised Share Capital”	the increase in the authorised share capital of the Company from HK\$10,000,000 divided into 1,000,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares by the creation of 1,000,000,000 new Shares to be proposed at the EGM
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders in respect of the Rights Issue
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolution approving the Rights Issue pursuant to the GEM Listing Rules

DEFINITIONS

“Last Trading Day”	10 July 2014, being the last full trading day of the Shares on the Stock Exchange immediately before the issue of the Announcement
“Latest Practicable Date”	4 August 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Latest Time for Acceptance”	4:00 p.m. on 18 September 2014 or such later time to be agreed between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Rights Shares as described in the Prospectus
“Latest Time for Termination”	4:00 p.m. on 19 September 2014 or such later time and/or date as may be agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement
“Mr. Cheung”	Mr. Cheung Ka Heng, Frankie, an executive Director
“Mr. Cheung’s Undertaking”	the irrevocable undertaking given by Mr. Cheung in favour of the Company and the Underwriter on 10 July 2014 pursuant to which Mr. Cheung undertook not to, inter alia, exercise any of the subscription rights attached to the Share Options granted by the Company to him from the date of the Underwriting Agreement to the Record Date
“Outstanding Options”	a total of 15,850,000 Share Options outstanding as at the Latest Practicable Date, of which 2,000,000 Share Options were held by Mr. Cheung
“Overseas Shareholder(s)”	Shareholder(s) with registered address(es) (as shown in register of members of the Company on the Record Date) which is/are outside Hong Kong
“PAL(s)”	the renounceable provisional allotment letter(s) in respect of the Rights Issue proposed to be issued to the Qualifying Shareholders

DEFINITIONS

“Placing Convertible Notes”	the HK\$30,000,000 4% convertible notes due 2016 issued by the Company pursuant to a placing agreement (executed by the Company and the placing agent dated 20 December 2013), of which a principal amount of HK\$30,000,000 convertible into a maximum of 90,909,090 Shares remains outstanding as at the Latest Practicable Date
“Prime Pacific”	Prime Pacific Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Get Nice Holdings Limited which is the holding company of the Underwriter
“Prime Pacific Convertible Note”	the HK\$4,000,000 4% convertible notes due 2016 issued by the Company to Prime Pacific, being part of the Placing Convertible Notes and are convertible into a maximum of 12,121,212 Shares
“Prime Pacific’s Undertaking”	the irrevocable undertaking given by Prime Pacific in favour of the Company and the Underwriter on 10 July 2014 pursuant to which Prime Pacific undertook not to, inter alia, transfer or deal with the Prime Pacific Convertible Note and not to exercise the conversion rights attaching to the Prime Pacific Convertible Note from the date of the Underwriting Agreement to the close of business on the Record Date
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Prospectus Documents”	the Prospectus, the PAL and the EAF
“Prospectus Posting Date”	3 September 2014 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Prospectus Documents

DEFINITIONS

“Qualifying Shareholder(s)”	Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date
“Record Date”	2 September 2014 or such other date as may be agreed between the Company and the Underwriter for the determination of the entitlements under the Rights Issue
“Remaining Placing Convertible Notes”	the remaining Placing Convertible Notes in the principal amount of HK\$26,000,000 convertible into a maximum of 78,787,878 Shares which are exercisable on or before the Record Date after taking into account Dr. Cheung’s Undertaking and Prime Pacific’s Undertaking
“Registrar”	Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, being the Company’s branch share registrar in Hong Kong
“Rights Issue”	the proposed issue by way of rights on the basis of three (3) Rights Shares for every one (1) Share in issue and held on the Record Date at the Subscription Price on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
“Rights Share(s)”	not less than 893,857,500 new Shares and not more than 1,171,771,134 new Shares proposed to be offered to Shareholders under the Rights Issue on the terms set out in the Underwriting Agreement and in the Prospectus Documents
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares currently having a par value of HK\$0.01 each in the share capital of the Company
“Share Option(s)”	the options granted by the Company to subscribe for Shares pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme approved and adopted by shareholders of the Company on 4 November 2003

DEFINITIONS

“Shareholder(s)”	The holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Convertible Note”	the HK\$20,000,000 2% convertible note due 2016 issued by the Company pursuant to a subscription agreement (executed by the Company and Dr. Cheung dated 20 December 2013), of which a principal amount of HK\$20,000,000 convertible into a maximum of 60,606,060 Shares remains outstanding as at the Latest Practicable Date
“Subscription Price”	the issue price for the Rights Shares, being HK\$0.10 per Rights Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement entered into between the Company and the Underwriter dated 10 July 2014 in relation to the Rights Issue
“Underwritten Shares”	up to 676,793,400 Rights Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 954,707,034 Rights Shares (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date)
“Untaken Shares”	the Underwritten Shares for which duly completed PAL or EAF (accompanied by cheques or banker’s cashier orders for the full amount payable on application) have not been lodged for acceptance, or received, as the case may be, on or before the Latest Time for Acceptance
“%”	per cent.

TERMINATION OF THE UNDERWRITING AGREEMENT

If prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a 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):

- (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new 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
 - (ii) 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, financial, economic, currency market 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 Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (iii) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
 - (iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, 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
 - (v) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (vi) the commencement or taking by any third party of any litigation or claim or other action against any member of the Group which is or might be material to the Group taken as a whole; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong or other jurisdiction relevant to the Group or any member of the Group and a change in currency conditions for the purpose of this Clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or

- (c) the Prospectus when published contain 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 in the absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it;

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. Upon giving of such notice, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and the Company shall, save for reasonable legal fees and other reasonable out-of-pocket expenses of the Underwriter, not be liable to pay to the Underwriter any fees under the Underwriting Agreement. Rescission or termination of the Underwriting Agreement shall be without prejudice to any rights of any party in respect of any breach by the other prior to such rescission or termination of the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

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

Ms. Chiu Kam Hing, Kathy

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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

4th Floor, Sands Building

17 Hankow Road

Tsim Sha Tsui

Kowloon

Hong Kong

6 August 2014

To the Shareholders

Dear Sir or Madam,

**PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
PROPOSED RIGHTS ISSUE OF NOT LESS THAN 893,857,500 RIGHTS SHARES
AND NOT MORE THAN 1,171,771,134 RIGHTS SHARES OF HK\$0.01 EACH
AT HK\$0.10 PER RIGHTS SHARE ON THE BASIS OF THREE RIGHTS SHARES
FOR EVERY ONE SHARE HELD ON THE RECORD DATE;
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

On 10 July 2014, the Company announced that it proposes to put forward to the Shareholders:

- (a) the Increase in Authorised Share Capital; and

* For identification purpose only

LETTER FROM THE BOARD

- (b) to raise not less than approximately HK\$89.39 million and not more than approximately HK\$117.18 million, before expenses, by way of a rights issue of not less than 893,857,500 Rights Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 1,171,771,134 Rights Shares (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date) at the Subscription Price of HK\$0.10 per Rights Share on the basis of three (3) Rights Shares for every one (1) Share held on the Record Date.

The Independent Board Committee has been established to advise the Independent Shareholders in respect of the Rights Issue. Fulbright Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among others, (i) further details about the proposed Increase in Authorised Share Capital and the proposed Rights Issue; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Rights Issue; (iii) the advice of Fulbright Capital to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue; and (iv) the notice of the EGM at which resolutions will be proposed to consider and, if thought fit, approve the Increase in Authorised Share Capital and the Rights Issue.

2. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$10,000,000 divided into 1,000,000,000 Shares, of which 297,952,500 Shares have been issued and allotted as fully paid. In order to facilitate the possible future expansion in the share capital of the Company, the Company intends to propose to the Shareholders the Increase in Authorised Share Capital. The authorised share capital of the Company will be increased to HK\$20,000,000 divided into 2,000,000,000 Shares by creating an additional 1,000,000,000 Shares upon passing of the ordinary resolution in relation to the Increase in Authorised Share Capital by the Shareholders at the EGM.

LETTER FROM THE BOARD

Reasons for the Increase in Authorised Share Capital

In order to accommodate future issues of Shares which shall include, but not limited to, the Rights Shares, as well as to provide the Company with greater flexibility to raise funds by allotting and issuing Shares in the future, as and when necessary, the Board proposed the Increase in Authorised Share Capital.

Condition of the Increase in Authorised Share Capital

The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM approving the Increase in Authorised Share Capital. The Increase in the Authorised Share Capital is not conditional upon the Rights Issue.

3. PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE (3) RIGHTS SHARES FOR EVERY ONE (1) SHARE HELD ON THE RECORD DATE

A. Issue statistics

Basis of the Rights Issue	:	Three (3) Rights Shares for every one (1) Share held on the Record Date
Subscription Price	:	HK\$0.10 per Rights Share
Number of Shares in issue as at the Latest Practicable Date	:	297,952,500 Shares
Number of Rights Shares	:	Not less than 893,857,500 Rights Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 1,171,771,134 Rights Shares (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date) (<i>Note</i>)

LETTER FROM THE BOARD

- Number of Rights Shares : All the Rights Shares other than those underwritten by the Underwriter : All the Rights Shares other than those provisionally allotted to and undertaken to be subscribed by Dr. Cheung and Mr. Cheung, being not less than 676,793,400 Rights Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 954,707,034 Rights Shares (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date)
- Enlarged issued share capital upon completion of the Rights Issue : Not less than 1,191,810,000 Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 1,562,361,512 Shares (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date)
- Aggregate nominal value of the Rights Shares : Aggregate nominal value of the Rights Shares will not be less than HK\$8,938,575 (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than approximately HK\$11,717,711 (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date)

Note:

Assuming further issue of new Shares upon full exercise of the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes on or before the Record Date, a total of 92,637,878 new Shares would fall to be issued. Accordingly, an additional 277,913,634 Rights Shares would be issued, in which case the maximum number of Rights Shares that may be issued by the Company pursuant to the Rights Issue will increase to 1,171,771,134. As at the Latest Practicable Date, the holders of the Remaining Placing Convertible Notes were independent of and not connected with the Company and its connected persons.

LETTER FROM THE BOARD

As at the Latest Practicable Date:

- (i) there are 15,850,000 Outstanding Options granted under the Share Option Scheme entitling the holders of the Share Options to subscribe for additional Shares, of which 2,000,000 Share Options are held by Mr. Cheung. Pursuant to the Mr. Cheung's Undertaking, Mr. Cheung has irrevocably undertaken that he will not exercise any of the subscription rights attached to the Share Options granted by the Company to him on or before the Record Date. As a result, only 13,850,000 Share Options are exercisable on or before the Record Date after taking into account the Mr. Cheung's Undertaking; and
- (ii) there are Existing Convertible Notes convertible into a maximum of 151,515,150 Shares, of which the Subscription Convertible Note and the Prime Pacific Convertible Note are held by Dr. Cheung and Prime Pacific respectively. Pursuant to the Dr. Cheung's Undertaking, Dr. Cheung has irrevocably undertaken that she will not exercise any of the conversion rights attached to the Subscription Convertible Note on or before the Record Date. Pursuant to the Prime Pacific's Undertaking, Prime Pacific has irrevocably undertaken that it will not transfer or deal with the Prime Pacific Convertible Note and will not exercise the conversion rights attaching to the Prime Pacific Convertible Note on or before the Record Date. As a result, only the Remaining Placing Convertible Notes are exercisable on or before the Record Date.

Assuming no conversion or subscription rights attaching to the Existing Convertible Notes and the Outstanding Options are exercised on or before Record Date, the 893,857,500 nil-paid Rights Shares proposed to be provisionally allotted represent 300% of the Company's issued share capital as at the Latest Practicable Date and approximately 75% of the Company's issued share capital as enlarged by the issue of the 893,857,500 Rights Shares.

Save as disclosed above, as at the Latest Practicable Date, the Company has no other outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares.

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B. Qualifying Shareholders

The Company will send: (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) the Prospectus, for information only, to the Excluded Shareholders.

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

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfer of Shares (together with the relevant share certificates) for registration with Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on Tuesday, 26 August 2014.

C. Rights of Overseas Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

According to the register of members of the Company as at the Latest Practicable Date, the Company did not have any Overseas Shareholder. In the event that there is/are any Overseas Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the Record Date, the Company will make enquiries pursuant to Rule 17.41 of the GEM Listing Rules regarding the feasibility of extending the offer of the Rights Shares to such Overseas Shareholder(s). If, based on legal opinion(s) provided by legal adviser(s) of the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholder(s) on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that/those place(s), the Rights Issue will not be extended to such Overseas Shareholder(s). Further information in this connection will be set out in the Prospectus Documents containing, among other things, details of the Rights Issue, to be despatched to the Qualifying Shareholders as soon as practicable. The Company will send copies of the Prospectus to the Excluded Shareholders for their information only, but will not send any PAL or EAF to them.

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Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid pro rata to the Excluded Shareholders. The Company will retain individual amounts of HK\$100 or less for the benefit of the Company. Any unsold entitlement of Excluded Shareholders, together with any Rights Shares provisionally allotted but not accepted, and which are not applied for by the Qualify Shareholders, will be taken up by the Underwriter.

D. Subscription Price

The Subscription Price is HK\$0.10 per Rights Share, payable in full upon acceptance of the relevant provisional allotment of Rights Shares and, where applicable, for excess Rights Shares under the Rights Issue or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (a) a discount of approximately 77.27% to the closing price of HK\$0.440 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 77.38% to the average closing price of approximately HK\$0.442 per Share as quoted on the Stock Exchange for the five consecutive trading days ended on the Last Trading Day;
- (c) a discount of approximately 45.95% to the theoretical ex-rights price of approximately HK\$0.185 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day;
- (d) a discount of approximately 77.97% to the average closing price of approximately HK\$0.454 per Share as quoted on the Stock Exchange for the ten consecutive trading days ended on the Last Trading Day; and
- (e) a discount of approximately 37.11% to the theoretical ex-rights price of approximately HK\$0.159 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 the financial performance and underlying value of the Company, the recent market prices of the Shares under the prevailing market conditions. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date. The Directors considers the Subscription Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

E. Status of Rights Shares

The Rights Shares, when allotted, issued and fully paid, will rank *pari passu* with the then existing Shares in issue on the date of allotment and issue of the Rights Shares in all respects. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the Rights Shares.

The Rights Shares (in nil-paid and fully paid forms) will be traded in board lot of 4,000 Shares which is the same as the board lot size for trading in Shares on the Stock Exchange.

F. Fractions of Rights Shares

On the basis of provisional allotment of three (3) Rights Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Shares will arise under the Rights Issue.

G. Application for excess Rights Shares

Qualifying Shareholders may, by way of excess application, apply for any unsold entitlements of the Excluded Shareholders and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders.

Application for excess Rights Shares may be made by completing the EAF for application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares being applied for at its discretion and on a fair and equitable basis on the following principles:

- (1) subject to the availability of excess Rights Shares, preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings where it appears to the Directors that such applications are not made with the intention to abuse such mechanism; and

LETTER FROM THE BOARD

- (2) subject to the availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to the Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied for by them (i.e. the Qualifying Shareholders applying for a smaller number of Rights Shares will be allocated a higher percentage of the excess Rights Shares they have applied for; whereas the Qualifying Shareholders applying for a larger number of Rights Shares will be allocated a lower percentage of the excess Rights Shares they have applied for (although they will receive a greater number of Rights Shares than those applying for a smaller number)), and with board lot allocations to be made on a best effort basis.

Any Rights Shares not applied for by the Qualifying Shareholders will be taken up by the Underwriter.

Investors with their Shares held by a nominee (or which are held in CCASS) should note that the Directors will regard the nominee (including HKSCC Nominees Limited) as a single Shareholder according to the register of members of the Company. Accordingly, investors whose Shares are registered in the name of a nominee (or which are held in CCASS) should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares will not be extended to them individually. Beneficial owners with their Shares held by a nominee (or which are held in CCASS) are advised to consider whether they would like to arrange for the registration of the relevant Shares in their own names prior to the Record Date. Investors whose Shares are held by a nominee (or which are held in CCASS) and who would like to have their names registered on the register of members of the Company, must lodge all necessary documents with Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, on or before 4:30 p.m. on Tuesday, 26 August 2014 (the register of members of the Company will be closed from Wednesday, 27 August 2014 to Tuesday, 2 September 2014, both dates inclusive).

As at the Latest Practicable Date, save for the irrevocable undertakings given by Dr. Cheung and Mr. Cheung to take up all the Rights Shares to be offered to them and, where applicable, their respective nominees under the Rights Issue, the Board has not received any information from any substantial Shareholders of their intention to take up the Rights Shares allotted or to be provisionally allotted to them.

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H. Share certificates and refund cheques

Subject to the fulfilment of the conditions of the Rights Issue as set out in the paragraph headed “K. Conditions of the Rights Issue” below, share certificates for all fully-paid Rights Shares and refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are expected to be sent by ordinary post to the Qualifying Shareholders and unsuccessful applicants who have accepted and applied for (where appropriate), and paid for the Rights Shares in accordance with the timetable as set out in the section “EXPECTED TIMETABLE” in this circular at their own risk. Each Shareholder will receive one share certificate for all allotted Rights Shares.

I. Application for listing

The Company will apply to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as may be 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. The Shareholders and 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.

Dealings in the Rights Shares in both their nil-paid and fully-paid forms (both in board lots of 4,000 Shares), which are registered in the register of members of the Company, will be subject to the payment of stamp duty, Stock Exchange trading fee, SFC transaction levy and any other applicable fees and charges in Hong Kong.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted to CCASS.

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No part of the share capital of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

J. Irrevocable undertakings

As at the Latest Practicable Date, Dr. Cheung (together with Biochem Investments) held an aggregate of 71,654,700 Shares, representing approximately 24.05% of the existing issued share capital of the Company. Dr. Cheung has irrevocably undertaken to the Company and the Underwriter, among others, that (i) she will accept and will procure her nominees to accept all the Rights Shares to be provisionally allotted to her and her nominees pursuant to the Rights Issue in respect of the Shares held by her and her nominees as at the Record Date; (ii) she will not dispose of or transfer, or agree to dispose of or transfer, any Shares held by her and her wholly-owned Biochem Investments on or prior to the Record Date; (iii) she will not apply for any additional excess Rights Shares under the excess application arrangement under the Rights Issue; and (iv) she will not transfer the Subscription Convertible Note to any third party and will not convert the Subscription Convertible Note into Shares on or prior to the Record Date.

As at the Latest Practicable Date, Mr. Cheung was interested in 700,000 Shares, representing approximately 0.23% of the existing issued share capital of the Company. Mr. Cheung has irrevocably undertaken to the Company and the Underwriter, among others, that (i) he will accept all the Rights Shares to be provisionally allotted to him pursuant to the Rights Issue in respect of the Shares held by him as at the Record Date; (ii) he will not dispose of or transfer, or agree to dispose of or transfer, any Shares held by him on or prior to the Record Date; (iii) he will not apply for any additional excess Rights Shares under the excess application arrangements under the Rights Issue; and (iv) he will not exercise any of the subscription rights attached to the Share Options granted by the Company to him from the date of the Underwriting Agreement to the Record Date.

Further, as at the Latest Practicable Date, Prime Pacific was the holder of the Prime Pacific Convertible Note which was convertible into 12,121,212 Shares. Prime Pacific has given an irrevocable undertaking in favour of the Company and the Underwriter that it will not transfer or deal with the Prime Pacific Convertible Note and will not exercise the conversion rights attaching to the Prime Pacific Convertible Note from the date of the Underwriting Agreement to the close of business on the Record Date.

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K. Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled or waived (as appropriate):

- (a) the passing by the Shareholders at the EGM of an ordinary resolution to approve the Increase in Authorised Share Capital by no later than the Prospectus Posting Date;
- (b) 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 all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Prospectus Posting Date;
- (c) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting, to the extent reasonably practicable, of the Prospectus for information purposes only to the Excluded Shareholders;
- (d) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms of the Underwriting Agreement on or before the Latest Time for Termination;
- (e) 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 (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and otherwise in compliance with the GEM Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (f) the passing by no later than the Prospectus Posting Date by the Independent Shareholders at the EGM of all necessary resolution(s) to approve the Rights Issue;
- (g) compliance with and performance of all undertakings and obligations of Prime Pacific under the Prime Pacific's Undertaking;
- (h) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement;
- (i) compliance with and performance of all undertakings and obligations of Dr. Cheung under the Dr. Cheung's Undertaking; and

LETTER FROM THE BOARD

- (j) compliance with and performance of all undertakings and obligations of Mr. Cheung under the Mr. Cheung's Undertaking.

Conditions (a) to (g) (both inclusive) are incapable of being waived. The Underwriter may waive conditions (h) to (j) set out above (both inclusive) in whole or in part by written notice to the Company.

If the above conditions are not satisfied and/or waived in whole or in part by the Underwriter by 4:00 p.m. on 19 September 2014 or such later date or dates as the Underwriter may agree with the Company in writing, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise.

If any of the conditions (i) to (j) is/are not fulfilled due to whatever reason including breach of the undertakings by Dr. Cheung and/or Mr. Cheung of her/his/their undertakings and such condition(s) is/are subsequently waived by the Underwriter on or before the time prescribed under the Underwriting Agreement, the Company will immediately negotiate with the Underwriter on revising the terms of the Underwriting Agreement (including but not limited to revising the timetable of the Rights Issue and the number of the Underwritten Shares) such that any Rights Shares originally undertaken by Dr. Cheung and/or Mr. Cheung shall be taken up by the Underwriter and the Rights Issue shall be fully underwritten thereof and in such case, the Company will make further announcement and comply with applicable GEM Listing Rules as appropriate.

L. The Underwriting Agreement

Date : 10 July 2014

Underwriter : Get Nice Securities Limited. As at the Latest Practicable Date, save as the Prime Pacific Convertible Note which was held by Prime Pacific (convertible into a maximum of 12,121,212 Shares representing approximately 4% of the issued share capital of the Company as at the Latest Practicable Date) and the interest in the Underwritten Shares resulting from the Underwriting Agreement, none of the Underwriter, its ultimate beneficial owner or its associates held any securities of the Company and none of them was an associate

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of the directors, chief executive or substantial shareholder of the Company. To the best of the Director's knowledge, information and belief, having made all reasonable enquiries, the Underwriter, its ultimate beneficial owner and its associates are third parties independent of, and not connected with, the Company and its connected persons (as defined in the GEM Listing Rules).

- Number of Rights Shares : The Underwriter has agreed to underwrite underwritten by the Underwriter not less than 676,793,400 Rights Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 954,707,034 Rights Shares (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date).
- Underwriting Commission : 2.50% of the aggregate Subscription Price in respect of the number of the Underwritten Shares on the Record Date

Pursuant to the terms of the Underwriting Agreement, the Underwriter has undertaken to the Company that it will take all such steps as shall be appropriate to ensure that the Company can comply with the public float requirements under Rule 11.23 of the GEM Listing Rules. The Underwriter shall use its reasonable endeavours to ensure that each of the sub-underwriters and their placees (and their respective ultimate beneficial owners) is independent of and not connected with the Company and its connected persons and is not a party acting in concert with each other and that no sub-underwriter will become substantial shareholder of the Company in any event immediately after completion of the Rights Issue.

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According to the Underwriter, it shall monitor from time to time and shall use its best endeavours to ensure that no sub-underwriter(s) will become substantial shareholder(s) of the Company in any event immediately after the Rights Issue. As such, in the event that no Qualifying Shareholder (other than Dr. Cheung, Mr. Cheung and Biochem Investments) takes up the Rights Shares, there will be no circumstances where:

- (a) the number of Untaken Shares will result in the shareholding of the Underwriter and parties acting in concert with it in the Company exceeding 19.9% of the voting rights of the Company upon completion of the Rights Issue; and the Company being unable to comply with its obligations under the GEM Listing Rules to maintain the public float of the Company; and
- (b) the number of Untaken Shares procured/subscribed by the sub-underwriters would (i) create an obligation to make a mandatory general offer under the Takeovers Code; or (ii) cause the sub-underwriter(s) to become substantial shareholders of the Company under the GEM Listing Rules as a result of such subscription.

The Board considers that the terms of the Underwriting Agreement including the commission rate accord with the market practice and are fair and reasonable so far as the Company and the Shareholders are concerned.

M. Termination of the Underwriting Agreement

If prior to the Latest Time for Termination (provided that if the date of the Latest Time for Termination shall be a 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):

- (a) in the absolute opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:
 - (i) the introduction of any new 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

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- (ii) 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, financial, economic, currency market 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 Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or
 - (iii) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or
 - (iv) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out which would, 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
 - (v) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (vi) the commencement or taking by any third party of any litigation or claim or other action against any member of the Group which is or might be material to the Group taken as a whole; or
- (b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, imposition of economic sanctions, on Hong Kong or other jurisdiction relevant to the Group or any member of the Group and a change in currency conditions for the purpose of this Clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the absolute opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or

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- (c) the Prospectus when published contain 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 in the absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it;

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. Upon giving of such notice, all obligations of the Underwriter under the Underwriting Agreement shall cease and determine and the Company shall, save for reasonable legal fees and other reasonable out-of-pocket expenses of the Underwriter, not be liable to pay to the Underwriter any fees under the Underwriting Agreement. Rescission or termination of the Underwriting Agreement shall be without prejudice to any rights of any party in respect of any breach by the other prior to such rescission or termination of the Underwriting Agreement. If the Underwriter exercises such right, the Rights Issue will not proceed.

N. Reasons for the Rights Issue and use of proceeds of the Rights Issue

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

The estimated gross proceeds of the Rights Issue will be not less than approximately HK\$89.39 million (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) but not more than approximately HK\$117.18 million (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date).

The estimated net proceeds of the Rights Issue will be between approximately HK\$84.39 million (equivalent to net price of approximately HK\$0.094 per Rights Share) (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and HK\$111.68 million (equivalent to net price of approximately HK\$0.095 per Rights Share) (assuming no repurchase of Shares and the subscription or conversion rights attaching to the

LETTER FROM THE BOARD

Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date). The Company intends to apply such net proceeds from the Rights Issue (i) as to approximately HK\$50.00 million for the general working capital of the Group; (ii) as to approximately HK\$3.00 million for the development of e-commerce; and (iii) as to approximately HK\$15.00 million for the marketing and promotion of the Group. The balance of the net proceeds of approximately HK\$16.39 million is for the opportunistic investment by the Group in other businesses, although as at the Latest Practicable Date no suitable targets have been identified.

In the event that any Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised on or before the Record Date resulting in an increase in the net proceeds from the Rights Issue, our intended uses of net proceeds set out above will be increased on a pro-rata basis.

As reflected in the annual report of the Company for the year ended 31 March 2014, for the two financial years ended 31 March 2014 and 31 March 2013, the Group's existing operating activities were not able to generate positive cashflow, and the Group's cashflow was mostly supported by financing activities. Besides, the Group had cash and cash equivalents (excluding the balances of approximately HK\$48 million which has been maintained by Shanghai Dong Fang Ri Hua Sales Co. Ltd., an non-wholly owned subsidiary of the Company, and to be solely utilised for its business operation of the distribution of P&G products in the PRC market) of approximately HK\$51.6 million as at 31 March 2014 and such balances were subsequently reduced to approximately HK\$14.6 million as at the Latest Practicable Date. Although the proceeds from the placing of Shares in March 2014 has not been fully utilised and had a balance of approximately HK\$3.4 million as at the Latest Practicable Date, such remaining proceeds is expected to be fully utilised on or before mid of September 2014 for its intended purpose and thus the same will no longer be available on the expected date of completion of the Rights Issue which is currently scheduled to take place by the end of September 2014.

With the net proceeds from the Rights Issue of not less than HK\$84.39 million, it will enable the Group to put more resources into marketing and promotion of the Group, development of e-commerce and exploring other investment opportunities. In view of the above positive financial effects on the Group, the Board believes that the Rights Issue will enable the Group to strengthen its capital base and enhance its financial position to prepare for its business development. Moreover, the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro-rata shareholding interests in the Company and continue to participate in the future development of the Company should they wish to, the Board considers raising capital through the Rights Issue is in the interest of the Company and the Shareholders as a whole.

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O. Closure of register of members

The register of members of the Company will be closed from Wednesday, 27 August 2014 to Tuesday, 2 September 2014 (both days inclusive) to determine the eligibility of the Shareholders to the Rights Issue. No transfer of Shares will be registered during this period.

P. Taxation

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the holding or disposal of, or dealing in the Rights Shares in both their nil-paid and fully-paid forms, or exercising any right attached thereto, or as regards the Excluded Shareholders, their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects on or liabilities of holders of the Rights Shares resulting from the subscription, purchase, holding or disposal of, or dealing in the Rights Shares in both their nil-paid and fully-paid forms.

Q. Warning of the Risks of dealing in Shares and Rights Shares

The Shares will be dealt in on an ex-rights basis on the Stock Exchange from Monday, 25 August 2014. The Rights Shares will be dealt with in their nil-paid form on the Stock Exchange from Friday, 5 September 2014 to Monday, 15 September 2014, both days inclusive. If the Underwriter terminates the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled or waived (as applicable) on or before on or before 4:00 p.m. on 19 September 2014 (or such other dates as the Company and the Underwriter may agree), the Rights Issue will not proceed. Any Shareholder or other person dealing in the Shares prior to the date on which all conditions to which the Rights Issue is subject are fulfilled or waived (as applicable), and/or dealing in the Rights Shares in their nil-paid form during the period as aforesaid, will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing existing Shares and/or nil-paid Rights Shares who is in doubt about his or her position is recommended to consult his or her own professional adviser.

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4. SHAREHOLDING IN THE COMPANY

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 Rights Issue are set out below for illustrative purpose only:

Scenario 1

Assuming (i) no issue of new Shares, (ii) no exercise of the Outstanding Options and the Existing Convertible Notes and (iii) no repurchase of Shares on or before the Record Date:

	(i) as at the Latest Practicable Date		(ii) upon completion of the Rights Issue and assuming all Rights Shares are taken up by Qualifying Shareholders		(iii) upon completion of the Rights Issue and assuming no Qualifying Shareholder (other than Dr. Cheung, Mr. Cheung and Biochem Investments) takes up the Rights Shares (note 4)	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Shareholders						
Dr. Cheung (note 1)	40,322,700	13.53	161,290,800	13.53	161,290,800	13.53
Biochem Investments (note 1)	31,332,000	10.52	125,328,000	10.52	125,328,000	10.52
Mr. Cheung (note 2)	700,000	0.23	2,800,000	0.23	2,800,000	0.23
Public shareholders						
The sub-underwriters and the subscribers procured by them to take up the Rights Shares (note 5)	—	—	—	—	676,793,400	56.79
Other public shareholders	225,597,800	75.72	902,391,200	75.72	225,597,800	18.93
Total	297,952,500	100.00	1,191,810,000	100.00	1,191,810,000	100.00

LETTER FROM THE BOARD

Scenario 2

Assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date:

	(i) immediately before completion of the Rights Issue		(ii) upon completion of the Rights Issue and assuming all Rights Shares are taken up by Qualifying Shareholders		(iii) upon completion of the Rights Issue and assuming no Qualifying Shareholder (other than Dr. Cheung, Mr. Cheung and Biochem Investments) takes up the Rights Shares (note 4)	
	No. of Shares	Approximate %	No. of Shares	Approximate %	No. of Shares	Approximate %
Shareholders						
Dr. Cheung (note 1)	40,322,700	10.32	161,290,800	10.32	161,290,800	10.32
Biochem Investments (note 1)	31,332,000	8.02	125,328,000	8.02	125,328,000	8.02
Mr. Cheung (note 2)	700,000	0.18	2,800,000	0.18	2,800,000	0.18
Public shareholders						
The sub-underwriters and the subscribers procured by them to take up the Rights Shares (note 5)	—	—	—	—	954,707,034	61.11
Holders of Share Options other than Mr. Cheung	13,850,000	3.55	55,400,000	3.55	13,850,000	0.89
Holders of Remaining Placing Convertible Notes (note 3)	78,787,878	20.17	315,151,512	20.17	78,787,878	5.04
Other public shareholders	225,597,800	57.76	902,391,200	57.76	225,597,800	14.44
Total	390,590,378	100.00	1,562,361,512	100.00	1,562,361,512	100.00

Notes:

- (1) Biochem Investments, holding 31,332,000 Shares as at the Latest Practicable Date, is a company wholly-owned by Dr. Cheung. Dr. Cheung has irrevocably undertaken to the Company and the Underwriter that (i) she will accept and will procure her nominees to accept all the Rights Shares to be provisionally allotted to her and her nominees pursuant to the Rights Issue in respect of the Shares held by her and her nominees as at the Record Date; (ii) she will not dispose of or transfer, or agree to dispose of or transfer, any Shares held by her and her wholly-owned Biochem Investments prior to the Record Date; (iii) she will not apply for any additional excess Rights Shares under the excess application arrangement under the Rights Issue; and (iv) she will not transfer the Subscription Convertible Note to any third party and will not convert the Subscription Convertible Note into Shares on or prior to the Record Date.

LETTER FROM THE BOARD

- (2) Mr. Cheung is an executive Director and also the elder brother of Dr. Cheung. Mr. Cheung is interested in 700,000 Shares as at the Latest Practicable Date and has undertaken to the Company and the Underwriter that (i) he will accept all the Rights Shares to be provisionally allotted to him pursuant to the Rights Issue in respect of the Shares held by him as at the Record Date; (ii) he will not dispose of or transfer, or agree to dispose of or transfer, any Shares held by him prior to the Record Date; (iii) he will not apply for any additional excess Rights Shares under the excess application arrangements under the Rights Issue; and (iv) he will not exercise any of the subscription rights attached to the Share Options granted by the Company to him from the date of the Underwriting Agreement to the Record Date.
- (3) Prime Pacific has given an irrevocable undertaking in favour of the Company and the Underwriter that it will not transfer or deal with the Prime Pacific Convertible Note and will not exercise the conversion rights attaching to the Prime Pacific Convertible Note from the date of the Underwriting Agreement to the close of business on the Record Date. As a result, only the Remaining Placing Convertible Notes are exercisable on or before the Record Date.
- (4) This scenario is for illustrative purpose only and will not occur. Pursuant to the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscribers to subscribe for any Untaken Shares:
- (a) the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert with it in the Company to exceed 19.9% of the voting rights of the Company upon completion of the Rights Issue and shall take such steps such that the Company can comply with its obligations under the GEM Listing Rules to maintain the public float of the Company; and
 - (b) the Underwriter shall use its best endeavours to ensure that each of the subscribers of the Untaken Shares procured by it (i) shall be third parties independent of and not connected with the directors, chief executive or substantial shareholders of the Company or their subsidiaries or any of their respective close associates; (ii) is not parties acting in concert with the Underwriter or any connected persons (as defined in the GEM Listing Rules) of the Company or any of their respective close associates; and (iii) will not subscribe for the Untaken Shares to the extent that an obligation to make a mandatory general offer will arise under the Takeovers Code or that he/she/it will become substantial shareholders of the Company under the GEM Listing Rules as a result of such subscription.
- The Company has been informed by the Underwriter that the Underwriter has already entered into sub-underwriting agreements with sub-underwriters to ensure the fulfilment of its obligations set out in paragraphs (a) and (b) above.
- (5) The Underwriter confirmed with the Company that, as at the Latest Practicable Date, it had sub-underwritten all of its underwriting obligations under the Underwriting Agreement to 14 sub-underwriters. Pursuant to the sub-underwriting agreements entered into between the Underwriter and the sub-underwriters, the sub-underwriters have agreed, in aggregate, to sub-underwrite a maximum of 954,707,034 Rights Shares representing approximately 81.48% of the maximum number of Rights Shares and approximately 61.11% of the issued share capital of the Company immediately after completion of the Rights Issue (assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date). In the shareholding tables above, the Untaken Shares are assumed to be taken up by the sub-underwriters at their maximum sub-underwriting commitment.

LETTER FROM THE BOARD

According to the Underwriter, the sub-underwriters were (a) not parties acting in concert with it in relation to the Company and (b) third parties independent of and not connected with the directors, chief executive or substantial shareholders of the Company or their subsidiaries or any of their respective close associates; save that one of the sub-underwriters (i.e. Kuk Po Shun, whose interest in the securities of the Company are set out in the section headed “Disclosure of interests by substantial shareholders” under Appendix III to this circular) had agreed to sub-underwrite 142,000,000 Rights Shares which together with the Shares fall to be issued upon exercise of the conversion rights attaching to the convertible notes of the Company held by him, will not exceed 9.9% of the issued share capital of the Company (upon completion of the Rights Issue and assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date), each of the other sub-underwriters had agreed to sub-underwrite less than 5% of the issued share capital of the Company (upon completion of the Rights Issue and assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date).

5. ADJUSTMENT TO THE SUBSCRIPTION PRICE OF THE OUTSTANDING OPTIONS

As at the Latest Practicable Date, there are (i) Existing Convertible Notes with outstanding principal amount of HK\$50,000,000 and (ii) Outstanding Options to subscribe for 15,850,000 new Shares.

As a result of the Rights Issue, the conversion price of Shares which would fall to be issued upon exercise of the conversion rights attached to the Existing Convertible Notes may be adjusted in accordance with the terms and conditions of the Existing Convertible Notes. The Company will make further announcements on the appropriate adjustments (if any) and the date they are expected to take effect in due course.

Pursuant to the Share Option Scheme, in the event of any alteration in the share capital of the Company by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision, or reduction of capital, the exercise price per Share at which the holders of the Outstanding Options may subscribe for Shares upon the exercise of the Share Options and the number of the Outstanding Options shall be adjusted. Therefore, after the Rights Issue becoming effective, the exercise price and number of the Outstanding Options will be affected. The Company will engage the auditors of the Company or a financial adviser in accordance with the terms of the Share Option Scheme and the supplementary guidance on adjustments to the exercise price and number of share options under the GEM Listing Rule requirements issued by the Stock Exchange to certify in writing as to the adjustments (if any) required to be made in respect of the Outstanding Options as a result of the Rights Issue. Further announcement will be made in relation thereto.

LETTER FROM THE BOARD

Save as aforesaid, the Company has no other outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares as at the Latest Practicable Date.

6. FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The following table summarises the fund raising activities undertaken by the Company in the 12 months immediately preceding the date of the Announcement:

Date of announcement	Fund raising activity	Net proceeds (approximately)	Intended use of proceeds	Actual use of Proceeds
14 March 2014	Placing of Shares And Subscription of New Shares under General Mandate	HK\$21.8 million	For general working capital for the Group	Approximately HK\$18.4 million has been utilised as at the Latest Practicable Date for general working capital for the Group and the remaining balance will be utilised as intended
7 November 2013	Placing of Convertible Notes	HK\$29 million	For the expansion of the Group's beauty, slimming and spa business and product distribution business in the PRC and as general working capital	Fully utilised as intended as at the Latest Practicable Date

Note:

For details of the abovementioned fund raising exercises, please refer to the Company's announcements dated 14 March 2014 and 7 November 2013 respectively.

Save as abovementioned, the Company had not conducted any other fund raising exercises in the past twelve months immediately preceding the Latest Practicable Date.

LETTER FROM THE BOARD

7. RISK FACTORS

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

Risks relating to the Group's normal course of business

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

Risks relating to health and beauty product sales

The health and beauty product market is highly fragmented. The customers are tempted to shift their choices and preferences whenever there are new products launched or induced by various marketing and pricing campaigns of different brands. The Group's business may be adversely affected by such operating environment.

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

Risks relating to competition

The health and beauty business is under rigorous competition throughout the world. 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.

Risks relating to the global market

Although the Group's business is principally based in Hong Kong and the PRC, their economic conditions are susceptible to global market fluctuations. If the current market slowdown becomes more severe, long lasting and broader than currently estimated, the business operations of the Group may be materially and adversely affected.

LETTER FROM THE BOARD

Risks relating to the Group's reliance on major suppliers

For the years ended 31 March 2012, 2013 and 2014, purchases by the Group from the top five suppliers amounted to approximately 97.21%, 97.16% and 97.16% of the Group's costs of sales respectively, and purchases by the Group from the largest supplier included therein amounted to approximately 94.34%, 92.57% and 93.56% respectively. In the event that the Company is unable to secure further purchases from any of these suppliers and the Company cannot find comparable substitutes, the Group's operations may be adversely affected.

Risks relating to health epidemics

The Group's business operations, 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 aggregate spending in Hong Kong and the PRC. The outbreak of human swine flu in 2009 and the severe acute respiratory syndrome in 2003 caused tremendous economic loss to the affected regions and the surrounding areas.

The recurrence of any of these epidemics or the outbreak of another severe communicable disease in Hong Kong or the PRC could result in a slowdown of the economy and disruptions to the Group's business operations and financial conditions.

8. GENERAL AND GEM LISTING RULES IMPLICATIONS

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

As the Rights Issue will increase the issued share capital of the Company or the market capitalisation by more than 50%, pursuant to Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on approval by the Independent Shareholders at the EGM, where the controlling Shareholders, or in the case that the Company has no controlling Shareholder, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the Rights Issue. As at the Latest Practicable Date, the Company did not have any controlling Shareholder. Dr. Cheung, being the chairman of the Company and an executive Director and Mr. Cheung, being the executive Director and their respective associates are interested in the Shares and shall abstain from voting in favour of the Rights Issue at the EGM.

LETTER FROM THE BOARD

9. THE EGM

The notice convening the EGM is set out on pages 96 to 98 of this circular. The EGM will be held at 4th Floor, Sands Building, 17 Hankow Road, Tsimshatsui, Kowloon, Hong Kong on 12:00 noon, Thursday, 21 August 2014 for the purpose of, considering and, if thought fit, to approve the Increase in Authorised Share Capital and the Rights Issue.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on the terms of the Rights Issue. Fulbright Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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

10. RECOMMENDATION

The Directors consider that the Increase in Authorised Share Capital is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution approving the Increase in Authorised Share Capital as set out in the notice of the EGM.

As to the Rights Issue, your attention is drawn to the letter from the Independent Board Committee set out on page 38 of this circular and the letter from Fulbright Capital set out on pages 39 to 67 of this circular.

The Independent Board Committee, having taken into account the advice of Fulbright Capital, considers that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM approving the Rights Issue.

LETTER FROM THE BOARD

11. ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

6 August 2014

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE

We refer to the circular of the Company dated 6 August 2014 (the “Circular”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable insofar as the Independent Shareholders are concerned. Fulbright Capital has been appointed as the independent financial adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, Fulbright Capital as set out in its letter of advice to you and us on pages 39 to 67 of the Circular, we are of the opinion that the Rights Issue are in the interests of the Company and the Independent Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,

For and on behalf of the

Independent Board Committee

Mr. Hong Po Kui, Martin

Mr. Li Kuo Hsing

Ms. Hui Yat Lam

Ms. Chiu Kam Hing, Kathy

Independent non-executive Directors

* For identification purpose only

LETTER FROM FULBRIGHT CAPITAL

Set out below is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Fulbright Capital in connection with the terms of the Rights Issue which has been prepared for the purpose of inclusion in this circular.



26/F., LHT Tower,
31 Queen's Road Central,
Hong Kong

6 August 2014

*To: the Independent Board Committee and the Independent Shareholders of
Sau San Tong Holdings Limited*

Dear Sirs,

**PROPOSED RIGHTS ISSUE OF
NOT LESS THAN 893,857,500 RIGHTS SHARES AND
NOT MORE THAN 1,171,771,134 RIGHTS SHARES OF HK\$0.01 EACH
AT HK\$0.10 PER RIGHTS SHARE ON THE BASIS OF
THREE RIGHTS SHARES FOR EVERY ONE SHARE HELD
ON THE RECORD DATE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, particulars of which are set out in the section headed "Letter from the Board" (the "**Letter from the Board**") contained in the circular dated 6 August 2014 issued by the Company (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 10 July 2014, the Company announced that it proposed to raise not less than approximately HK\$89.39 million but not more than approximately HK\$117.18 million before expenses, by issuing not less than 893,857,500 Rights Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 1,171,771,134 Rights Shares (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record

LETTER FROM FULBRIGHT CAPITAL

Date) to the Qualifying Shareholders at the Subscription Price of HK\$0.10 per Rights Share on the basis of three (3) Rights Shares for every one (1) Share held on the Record Date. The Right Issue will not be available to the Excluded Shareholders.

The Rights Issue is fully underwritten (other than 214,964,100 Rights Shares and 2,100,000 Rights Shares to be provisionally allotted to and undertaken to be subscribed by Dr. Cheung and Mr. Cheung pursuant to irrevocable undertakings given by Dr. Cheung and Mr. Cheung on 10 July 2014, respectively) by the Underwriter subject to the terms and conditions set out in the Underwriting Agreement.

Since the Rights Issue will increase the issued share capital or the market capitalisation of the Company by more than 50%, in accordance with Rule 10.29(1) of the GEM Listing Rules, the Rights Issue must be made conditional on approval by the Independent Shareholders in general meeting by a resolution on which any controlling Shareholders and their associates or, where there are no controlling shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue and the transactions contemplated thereunder.

As at the Latest Practicable Date, the Company does not have any controlling Shareholder as defined under the GEM Listing Rules, however, (a) Dr. Cheung, being the chairman of the Company and an executive Director, and her associates are interested in an aggregate of 71,654,700 Shares (among which, (i) Dr. Cheung is personally interested in 40,322,700 Shares; and (ii) Biochem Investments, being a wholly-owned company of Dr. Cheung, holds 31,332,000 Shares), representing approximately 24.05% of the existing issued share capital of the Company; and (b) Mr. Cheung, being the executive Director and the elder brother of Dr. Cheung, is interested in 700,000 Shares, representing approximately 0.23% of the existing issued share capital of the Company. Save for the interests of Dr. Cheung and Mr. Cheung and their respective associates, none of the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates hold any Shares. Accordingly, Dr. Cheung and Mr. Cheung and their respective associates shall abstain from voting in favour of the proposed resolution approving the Rights Issue at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing, Ms. Hui Yat Lam and Ms. Chiu Kam Hing, Kathy, all being the independent non-executive Directors has been established by the Company to make recommendations to the Independent Shareholders in respect of the Rights Issue. Our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in this respect.

LETTER FROM FULBRIGHT CAPITAL

Our role as the independent financial adviser is to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Rights Issue is fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the relevant resolution(s) in relation to the Rights Issue at the EGM.

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Company, the Directors and the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material change as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information have been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, the Directors and the management of the Company, which have been provided to us. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors have collectively and individually accepted full responsibility, includes particulars given in compliance with the GEM Listing Rules, for the accuracy of the information contained in the Circular and have confirmed, after having made all reasonable enquires, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other matters of facts the omission of which would make any statement herein or the Circular misleading.

LETTER FROM FULBRIGHT CAPITAL

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of Rights Issue, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Rights Issue to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background of and reasons for the Rights Issue

Business overview of the Group

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

Financial information of the Group

Tabularized below is a summary of the audited consolidated financial results of the Group for the three years ended 31 March 2014, 2013 and 2012, as extracted from the annual reports of the Company for the two years ended 31 March 2014 and 2013:

Table I — Selected financial information on consolidated statement of profit or loss and financial position of the Group for the three years ended 31 March 2014, 2013 and 2012

Consolidated statement of profit or loss

	For the year ended 31 March		
	2014	2013	2012
	HK\$ million	HK\$ million	HK\$ million
	(audited)	(audited)	(audited)
Turnover	1,362.9	1,141.7	1,039.8
Gross profit	173.2	167.6	178.2
Net profit attributable to			
the Shareholders	3.2	6.2	24.1
Dividend	Nil	Nil	Nil

LETTER FROM FULBRIGHT CAPITAL

Consolidated statement of financial position

	As at 31 March		
	2014	2013	2012
	HK\$ million (audited)	HK\$ million (audited)	HK\$ million (audited)
Cash and cash equivalents	99.6	73.5	110.0
Bank loans	40.3	18.6	14.8
Convertible notes	48.3	—	20.2
Net assets attributable to the Shareholders	153.4	125.5	119.0

Source: Annual reports of the Company for two years ended 31 March 2014 and 2013.

(i) *For the year ended 31 March 2014*

The Group recorded turnover of approximately HK\$1,362.9 million for the year ended 31 March 2014, represented a significant increase in turnover of approximately 19.4% from approximately HK\$1,141.7 million in the prior financial year. The increase was mainly attributable to the continuous remarkable growth in the distribution sales of cosmetic and skincare products in the PRC market, increased by approximately 23.1% to approximately HK\$1,241.8 million for the year ended 31 March 2014 as compared to approximately HK\$1,008.8 million for the year ended 31 March 2013, as resulted from the increasing disposable income in PRC thereby leading to increase in the spending on high-end products. The moderate growth of approximately 3.3% in gross profit from approximately HK\$167.6 million in the prior financial year to approximately HK\$173.2 million for the year ended 31 March 2014, with a slight decline in gross profit margin from approximately 14.7% in the prior financial year to approximately 12.7% for the year ended 31 March 2014, resulting from the increase in the direct labour costs thereby leading to higher sales costs. Notwithstanding the said increasing in turnover for the year ended 31 March 2014, the net profit attributable to the Shareholders were declined to approximately HK\$3.2 million for the year ended 31 March 2014, represented by a substantial drop of approximately 48.4% from approximately HK\$6.2 million in the prior financial year. As advised by the management of the Company, the decline was mainly attributable to (a) the receding

LETTER FROM FULBRIGHT CAPITAL

performance of the beauty and slimming segment under a shift of business focus to distribution of high-end products and services with a lower margin but more rosy prospect; (b) the sharp increase in staff costs and rental expenses thereby leading to higher administrative expenses; (c) the rises of the bank borrowings and convertible bonds resulting in higher finance costs; and (d) the deterioration of the financial performance of the joint ventures resulting in the recognition of losses arising from the share of results from the joint ventures for the year ended 31 March 2014. Furthermore, the Company has not declared any dividend for the recent financial years.

As for the assets and liabilities position of the Group, the net assets attributable to the Shareholders as at 31 March 2014 was approximately HK\$153.4 million, representing a further increase in the net assets position since the financial year of 2012 illustrated in Table I and an increase of approximately 22.2% as compared with the net assets attributable to the Shareholders as at 31 March 2013 of approximately HK\$125.5 million. Such increase was primarily attributable to the combined effects of (a) the significant increase in total assets of approximately HK\$78.1 million mainly resulted from the increase in cash and cash equivalents and trade receivables; exceeds (b) the increase in total liabilities of approximately HK\$49.6 million mainly resulted from the increase in bank loans and convertible notes between the said dates under review.

(ii) For the year ended 31 March 2013

As depicted by the above table, the Group recorded turnover of approximately HK\$1,141.7 million for the year ended 31 March 2013, representing an increase of approximately 9.8% as compared to the prior financial year. The increase in turnover was mainly attributable to the remarkable growth in the distribution sale of cosmetic and skincare products in the PRC market with its turnover increased from approximately HK\$870.0 million for the year ended 31 March 2012 to approximately HK\$1,008.8 million for the year ended 31 March 2013, representing an increase of approximately 16.0%. However, gross profit dropped slightly from approximately HK\$178.2 million for the year ended 31 March 2012 to approximately HK\$167.6 million for the year ended 31

LETTER FROM FULBRIGHT CAPITAL

March 2013, whilst net profit attributable to the Shareholders decreased substantially to approximately HK\$6.2 million for the year ended 31 March 2013 as compared to approximately HK\$24.1 million for the year ended 31 March 2012. As advised by the management of the Company, the decline in gross profit and net profit attributable to the Shareholders was primarily due to a transient shrink of the beauty and slimming industry in Hong Kong market under the challenging market conditions, and the increased investment for the opening of a new flagship in Shanghai.

Table II — Selected financial information on consolidated cash flow statement of the Group for three years ended 31 March 2014, 2013 and 2012

Consolidated cashflow statement

	For the year ended 31 March		
	2014	2013	2012
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	(audited)	(audited)	(audited)
Net cash (used in)/generated from operating activities	(27.8)	(33.4)	33.0
Net cash used in investing activities	(13.0)	(20.9)	(5.7)
Net cash generated from financing activities	66.0	17.4	4.9
Increase/(decrease) in cash and cash equivalent	25.2	(36.9)	32.2
Cash and cash equivalents	99.6	73.5	110.0

As illustrated in Table II above, cash and cash equivalents of the Group as at 31 March 2014 is amounted to approximately HK\$99.6 million, representing a moderate increase of approximately HK\$26.1 million as compared to approximately HK\$73.5 million as at 31 March 2013. The increase was primarily attributable to the proceeds from new bank loans and issue of convertible notes resulting in the increase of net cash generated from financing activities from approximately HK\$17.4 million for the year ended 31 March 2013 to approximately HK\$66.0 million for the year ended 31 March 2014. In light of the current cashflow position, the Group's cashflow has been mostly supported by financing activities and indicated its need of cash inflow to support the operating activities and investing activities, and the increase of proceeds from financing

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activities thereby leading to net increase in cash and cash equivalent of approximately HK\$25.2 million for the year ended 31 March 2014, as compared to the net decrease in cash and cash equivalent of approximately HK\$36.9 million for the year ended 31 March 2013.

As advised by the management of the Company, cash and cash equivalents of the Group as at 31 March 2014 is amounted to approximately HK\$99.6 million, of which the majority of cash and cash equivalents balances of approximately HK\$48.1 million were held by Shanghai Dong Fang Ri Hua Sales Co. Ltd (“**Dong Fang**”), being a non-wholly owned subsidiary of the Group, which is engaged in the distribution of P&G’s personal care, cosmetics and skincare products in the PRC. As advised by the management of the Company, we were given the understanding that such balance of cash and cash equivalent has been maintained and to be utilised solely for its business operation of the distribution of P&G products in the PRC. As further advised by the management of the Company, cash and cash equivalents of the Group as at 31 March 2014 of approximately HK\$99.6 million included approximately HK\$21.8 million arising from the net proceeds of the placing of existing Shares and the subscription of new Shares which has been completed by the end of March 2014, among which, approximately HK\$18.4 million has been utilized for the general working capital of the Group during the period from 1 April 2014 to the Latest Practicable Date and the remaining proceeds of approximately HK\$3.4 million is expected to be fully utilised on or before mid of September 2014 for its intended purpose and thus the same will be no longer be available on the expected date of completion of the Rights Issue which is currently scheduled to take place by the end of September 2014. As further advised by the management of the Company, the cash and cash equivalents of the Group (excluding the balances that held by Dong Fang) have subsequently reduced to approximately HK\$14.6 million as at the Latest Practicable Date.

The Group’s cash and cash equivalents decreased from approximately HK\$110.0 million as at 31 March 2012 to approximately HK\$73.5 million as at 31 March 2013. Such decrease was mainly due to the decrease in net cash generated from operating and investing activities for the year ended 31 March 2013.

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Reasons for the Rights Issue and the use of proceeds

As referred to in the Letter from the Board, with the net proceeds from the Rights Issue of not less than HK\$84.39 million, it will enable the Group to put more resources into marketing and promotion of the Group, development of e-commerce and exploring other investment opportunities which will potentially result in positive financial effects on the Group, the Directors believe that the Rights Issue will enable the Group to strengthen its capital base and enhance its financial position to prepare for its business development. Moreover, the Rights Issue will allow the Qualifying Shareholders to maintain their respective pro-rata shareholding interests in the Company and continue to participate in the future development of the Company should they wish to, the Directors consider raising capital through the Rights Issue is in the interest of the Company and the Shareholders as a whole.

With reference to the Letter from the Board, the estimated net proceeds of the Rights Issue will be between approximately HK\$84.39 million (equivalent to net price of approximately HK\$0.094 per Rights Share) (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and HK\$111.68 million (equivalent to net price of approximately HK\$0.095 per Rights Share) (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date). The Company intends to apply such net proceeds from the Rights Issue (i) as to approximately HK\$50.00 million for the general working capital of the Group; (ii) as to approximately HK\$3.00 million for the development of e-commerce; and (iii) as to approximately HK\$15.00 million for the marketing and promotion of the Group. The balance of the net proceeds of approximately HK\$16.39 million is for the opportunistic investment by the Group in other businesses, although as the Latest Practicable Date no suitable targets have been identified. In the event that any Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised on or before the Record Date resulting in an increase in the net proceeds from the Rights Issue, the Company's intended uses of net proceeds set out above will be increased on a pro-rata basis.

Per our discussion with the management of the Company, we were given the understanding that the Company has its funding needs for its general working capital primarily due to (i) the Group's cashflow has been mostly supported by financing activities and unable to generate material positive cash flows from its existing operating activities for the two financial years ended 31 March 2014 as discussed in

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the paragraph headed “Financial information of the Group” above; and (ii) the Group has a cash and cash equivalents (excluding the balances which has been maintained by Dong Fang and to be solely utilized for its business operation of the distribution of P&G products in the PRC market) of approximately HK\$51.6 million as at 31 March 2014 and such balances have subsequently reduced to approximately HK\$14.6 million as at the Latest Practicable Date.

As further advised by the management of the Company, in view of the rapid growing population of internet users in China and the emergence of the country as the world’s second-largest e-tail market, they are of the view that e-commerce is the inevitable direction of development for its business. In order to capture the potential opportunities arising from the migration from the traditional operating model to the new digital age in the beauty and slimming business, the Group will continue to invest in the enhancement of its online business platform, implement the digitalised management system and promote online marketing of the Group’s brand image for the year ahead. Hence, the Group intends to apply partial of the net proceeds arising from the Rights Issue for the development of e-commerce and marketing and promotion of the Group.

On the other hand, we have enquired with the Company and were advised by the management of the Company that, apart from the Rights Issue, the management of the Company have also considered alternative fund raising alternatives, including the possibility of the debt financing and the equity financing. Nonetheless, we were advised by the management of the Company that (a) debt financing or raising of bank loan would result in additional interest burden and finance cost to the Group, given that the Group has recorded an increase in finance costs for the last three financial years ended 31 March 2014, from approximately HK\$2.0 million for the year ended 31 March 2012 to approximately HK\$3.8 million for the year ended 31 March 2014. Given that the Group recorded continuous drop in net profit attributable to the Shareholders for the recent three financial years ended 31 March 2014 and the deficiency of any available collaterals, the management of the Company advised that additional loans at favorable terms from financial institutions are not readily available and pledges of fixed assets or properties and/or guarantees may also be required for loans offered by financial institutions; and (b) equity financing such as (i) placing of new shares would only available to certain placees who are not necessarily the existing Shareholders to participate in the capital fund raising exercise and would result in dilution of the shareholding of the existing Shareholders; and (ii) issue of convertible bonds would substantially dilute the shareholding of the existing Shareholders if it is converted in full, and will also incur interest burden and require to assess the fair value changes after the initial recognition which may

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impact the financial performance to the Group. The management of the Company further advised that they have not identified any suitable prospective investors as at the Latest Practicable Date given the current size of the Company, the existing financial performance and prevailing market conditions.

Having taken into account that (a) the Group has recorded continuous decline in the net profit attributable to the Shareholders for the recent three financial years ended 31 March 2014 despite the growth in its turnover and has been unable to generate material positive cash flows from its existing operating activities for the latest two financial years ended 31 March 2014; (b) the Company has not declared any dividend for the recent financial years, which may hinder the potential investors to invest in the Shares; (c) the Group had cash and cash equivalents (excluding the balances which held by Dong Fang) of approximately HK\$14.6 million as at the Latest Practicable Date and the Group had total borrowings of approximately HK\$108.7 million as at 30 June 2014 as disclosed in Appendix I to this circular; (d) the Company has various funding needs for its general working capital and business development as discussed above; and (e) the Rights Issue (i) offers all Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company to maintain their proportionate interests in the Company; (ii) allows the Qualifying Shareholders who decide not to take up their assured entitlements under the Rights Issue to sell the nil-paid Rights Shares in the market for economic benefits; (iii) enables the Group to raise funds without further increasing its debt liability and further worsen its interest burdens; and (iv) allows the Company to strengthen its capital base and liquidity so as to reduce its gearing ratio, we concur with the Director's view that the Rights Issue is the most appropriate means to raise fund and is beneficial to the Independent Shareholders as a whole.

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Save as disclosed below, the Company has not conducted any other fund raising exercise in the past 12 months immediately prior to the date of the Announcement:

Date of announcement	Fund raising activity	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
14 March 2014	Placing of Shares and subscription of new Shares under general mandate	HK\$21.8 million	For general working capital for the Group	Approximately HK\$18.4 million has been utilised as at the Latest Practicable Date for general working capital for the Group and the remaining balance will be utilised as intended
7 November 2013	Placing of convertible notes	HK\$29.0 million	For the expansion of the Group's beauty, slimming and spa business and product distribution business in the PRC and as general working capital	Fully utilised as intended as at the Latest Practicable Date

2. Principal terms of the Rights Issue

Basis of the Rights Issue

The Company proposes to raise not less than approximately HK\$89.39 million but not more than approximately HK\$117.18 million before expenses, by issuing not less than 893,857,500 Rights Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 1,171,771,134 Rights Issue (assuming no repurchase of Shares and the subscription or conversion rights

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attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date) to the Qualifying Shareholders at the Subscription Price of HK\$0.01 per Rights Share on the basis of three (3) Rights Shares for every one (1) Share in issue on the Record Date.

Subscription Price

The Subscription Price of HK\$0.10 per Rights Share represents:

- (i) a discount of approximately 77.27% to the closing price of HK\$0.440 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 77.38% to the average closing price of approximately HK\$0.442 per Share as quoted on the Stock Exchange for the five consecutive trading days ended on the Last Trading Day;
- (iii) a discount of approximately 45.95% to the theoretical ex-rights price of approximately HK\$0.185 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 77.97% to the average closing price of approximately HK\$0.454 per Share as quoted on the Stock Exchange for the ten consecutive trading days ended on the Last Trading Day; and
- (v) a discount of approximately 37.11% to the theoretical ex-rights price of approximately HK\$0.159 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the financial performance and underlying value of the Company, the recent market prices of the Shares under the prevailing market conditions. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date. The Directors (excluding the independent non-executive Directors) considers the Subscription Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

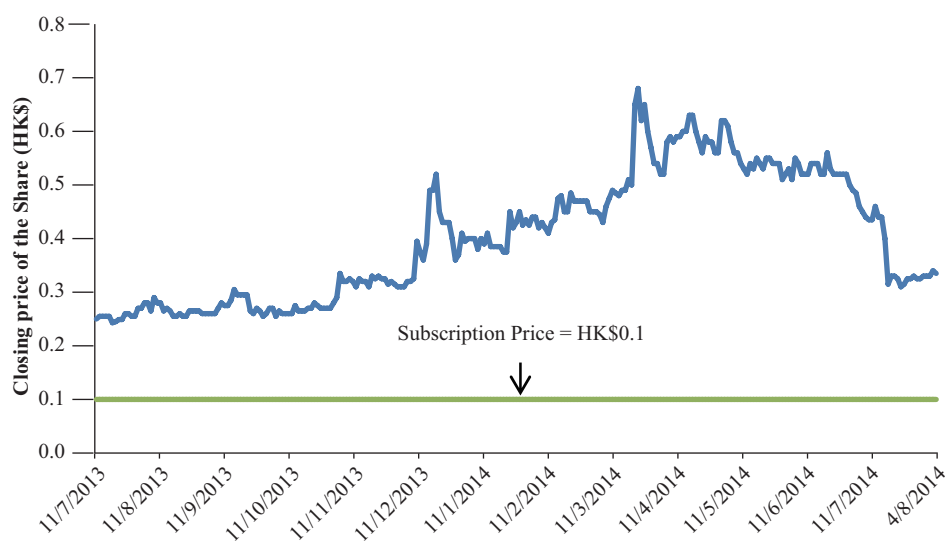
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In accessing the fairness and reasonableness of the Subscription Price, we set out the following analysis for illustrative purpose:

(i) *Historical Share price performance*

The chart below shows the daily closing price of the Share as quoted on the Stock Exchange versus the Subscription Price for the period commencing from 11 July 2013, being the 12-month period prior to the Last Trading Day, and up to and including the Latest Practicable Date (the “**Review Period**”):

Chart I — Historical Share price performance



Source: The website of the Stock Exchange (www.hkex.com.hk)

As shown in Chart I above, the daily closing Share price showed a general upward trend during the Review Period, with the highest and the lowest closing price of the Share as quoted on the Stock Exchange were HK\$0.680 recorded on 18 March 2014 and HK\$0.243 recorded on 18 July 2013, respectively. The Subscription Price represents (i) a discount of approximately 58.85% to the lowest closing Share price; and (ii) a discount of approximately 85.29% to the highest closing Share price, during the Review Period. The Shares were traded above the Subscription Price throughout the entire Review Period. After the closing price of the Shares have reached its peak at HK\$0.680 on 18 March 2014, the closing prices of the Shares showed a downward moving trend since then to a relatively lower price at HK\$0.335 as at the Latest Practicable Date.

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(ii) *Historical trading volume of the Shares*

Set out below is the number of trading days, the monthly trading volume, the average daily trading volume per month, and the respective percentages of the average daily trading volume per month as compared to the total number of issued Shares at the end of each month during the Review Period and up to and including the Latest Practicable Date:

Table III — Historical trading volume of the Shares

Month	Total monthly trading volume	No. of trading days	Average daily trading volume per month <i>(approximately)</i>	Total no. of outstanding Shares at the end of each respective month	Average daily trading volume over outstanding Shares <i>(%)</i>
Jul-2013 (from 11 July 2013 onwards)	1,977,500	15	133,833	248,293,750	0.05%
Aug-2013	2,934,100	21	139,719	248,293,750	0.06%
Sep-2013	6,924,650	20	346,233	248,293,750	0.14%
Oct-2013	11,239,848	21	535,231	248,293,750	0.22%
Nov-2013	17,380,961	21	827,665	248,293,750	0.33%
Dec-2013	53,981,800	20	2,699,090	248,293,750	1.09%
Jan-2014	10,912,600	21	519,648	248,293,750	0.21%
Feb-2014	11,128,280	19	585,699	248,293,750	0.24%
Mar-2014	132,325,469	21	6,301,213	297,952,500	2.11%
Apr-2014	9,556,900	20	477,845	297,952,500	0.16%
May-2014	2,719,548	20	135,977	297,952,500	0.05%
Jun-2014	3,109,550	20	155,478	297,952,500	0.05%
Jul-2014	23,610,000	22	1,073,182	297,952,500	0.36%
Aug-2014 (up to and including the Latest Practicable Date)	896,000	2	448,000	297,952,500	0.15%

Source: The website of the Stock Exchange (www.hkex.com.hk)

As illustrated from Table III above, the average daily trading volume of the Shares per month had been thin during the Review Period. Save for December 2013 and March 2014, the volume of Shares traded during the entire Review Period was below 1% of the total number of outstanding Shares at the end of each respective month during the Review Period.

Since the Shares were generally illiquid in the open market, we concur with the Directors that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price

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was not set at a relatively substantial discount to the historical closing prices of the Shares. In addition, we noted that it is common for the listed issuers in Hong Kong to issue rights shares at a discount to the prevailing market price in order to enhance the attractiveness of a rights issue exercise as discussed in the paragraph headed “Comparison with the recent rights issue exercises” below. Hence, we are of the view that the Subscription Price being set at a level lower than the prevailing market prices of the Shares is in line with normal market practice and is justifiable.

(iii) Comparison with the recent rights issue exercises

To further assess the fairness and reasonableness of the Subscription Price, we have reviewed the rights issues exercises conducted by the companies listed on the Main Board and GEM of the Stock Exchange for the six months period preceding the Last Trading Day (i.e. from 11 January 2014 to 10 July 2014) for comparison purposes. We have, to our best effort, identified and made references to, so far as we are aware, 17 companies (the “**Comparables**”) which meet the aforesaid criteria, and they are exhaustive.

We consider that the Comparables are fair and representative samples to demonstrate the recent market practice with regards to rights issue exercises as they were carried out under prevailing stock market conditions and sentiments and thus could provide a general reference for the terms of the Rights Issue. Nevertheless, the Independent Shareholders should note that the Comparables are not directly comparable to the Company in terms of principal business, operations and financial position, and that the terms of the rights issue exercises was made reference to the arm’s length commercial negotiation between the companies and the underwriters, the share price performance, financial positions of the companies and the then prevailing market condition. Summarised below is our relevant findings in relation to the Comparables:

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Table IV — Comparables analysis with other rights issue exercises for the recent six months

Company name	Stock code	Date of announcement	Basis for entitlement	Premium/(discount) of subscription price over/(to) the closing price on the last trading day (approximate %)	Premium/(discount) of subscription price over/(to) the theoretical ex-entitlement price (approximate %)	Excess application	Underwriting commission (%)
Applied Development Holdings Ltd.	519	3-Jul-2014	1 for 2	(67.30)	(57.90)	Yes	2.50
Vision Fame International Holding Limited	1315	19-Jun-2014	1 for 1	(20.00)	(11.11)	No	1.00
HKT Limited	6823	13-Jun-2014	18 for 100	(20.65)	(18.08)	No	2.20
eForce Holdings Limited	943	22-May-2014	16 for 1	(80.39)	(19.43)	Yes	3.00
Uni-President China Holdings Ltd.	220	11-May-2014	1 for 5	(29.60)	(26.00)	Yes	1.20
National Arts Entertainment and Culture Group Limited	8228	2-May-2014	6 for 1	(70.16)	(25.10)	Yes	2.50
Haitong International Securities Group Limited	665	22-Apr-2014	1 for 2	(11.21)	(7.77)	Yes	Nil (Note 1)
Merdeka Mobile Group Limited	8163	11-Apr-2014	4 for 1	(75.16)	(37.69)	No	3.50
China Primary Resources Holdings Limited	8117	11-Apr-2014	1 for 2	(56.70)	(46.60)	Yes	0.00 (Note 2)
Fosun International Limited	656	9-Apr-2014	39 for 500	0.00	0.00	Yes	0.00 (Note 2)
CMMB Vision Holdings Limited	471	9-Apr-2014	2 for 1	(34.20)	13.60	No	2.50
Dah Sing Banking Group Limited	2356	26-Mar-2014	12 for 100	(33.33)	(30.86)	Yes	2.25
Dah Sing Financial Holdings Limited	440	26-Mar-2014	13 for 100	(33.99)	(31.31)	Yes	2.25
Computech Holdings Limited	8081	21-Mar-2014	1 for 2	(23.35)	(16.88)	Yes	3.50
New World Development Company Limited	17	13-Mar-2014	1 for 3	(36.34)	(29.98)	Yes	2.50
Sincere Watch (Hong Kong) Limited	444	4-Mar-2014	1 for 2	(67.91)	(58.53)	Yes	2.50
Oriental Unicorn Agricultural Group Limited	8120	3-Mar-2014	13 for 2	(57.33)	(15.19)	Yes	3.50
			Average	(42.21)	(24.64)		2.18
			Maximum	0.00	13.60		3.50
			Minimum	(80.39)	(58.53)		0.00
The Company	8200	10-Jul-2014	3 for 1	(77.27)	(45.95)	Yes	2.50

Source: The website of the Stock Exchange (www.hkex.com.hk)

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Notes:

1. No underwriting commission was disclosed in the announcement.
2. The underwriter(s) is/are connected person(s) with the Comparables and no underwriting commission was charged to such underwriters.

As depicted in the table above, the subscription prices of the Comparables ranged from a discount of approximately 80.39% to 0.00% to the respective closing prices of their shares on the last trading days prior to the release of the rights issue announcement (the “**LTD Market Range**”), with an average discount of approximately 42.21%. The discount of the Subscription Price to the closing price of the Shares on the Last Trading Day is approximately 77.27%, which falls within the LTD Market Range and represents a deeper discount than the average discount of the LTD Market Range.

In addition, the subscription prices of the Comparables ranged from a discount of approximately 58.53% to a premium of approximately 13.60% to the respective theoretical ex-rights prices of their shares on the last trading days prior to the release of the rights issue announcement (the “**TERP Market Range**”), with an average discount of approximately 24.64%. The discount of the Subscription Price to the theoretical ex-rights prices of the Shares on the Last Trading Day is approximately 45.95%, which falls within the TERP Market Range and represents a deeper discount than the average discount of the TERP Market Range.

Having considered that (i) the financial position of the Group (in particular, the Group’s continuous decline in the net profit attributable to the Shareholders for the recent three financial years ended 31 March 2014 and negative cash flows from its existing operating activities for the latest two financial years ended 31 March 2014, with its cash and cash equivalents (excluding the balances which held by Dong Fang) of approximately HK\$14.6 million as at the Latest Practicable Date and total borrowings of approximately HK\$108.7 million as at 30 June 2014) as discussed in the paragraph headed “Financial information of the Group” above; (ii) the Company has various funding needs for its general working capital and business development as discussed in the paragraph headed “Reasons for the Rights Issue and the use of proceeds” above; (iii) the recent downward trend of the closing price of the Shares with relatively low trading volume of the Shares as discussed in the paragraph headed “Historical share price performance” and “Historical trading volume of the Shares” above; (iv) the Subscription Price was arrived at after arm’s length

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negotiations between the Company and the Underwriter; (v) the discounts represented by the Subscription Price to the closing price of the Shares on the Last Trading Day and the theoretical ex-entitlement price falls within the LTD Market Range and the TERP Market Range, respectively; (vi) it is common for the listed issuers in Hong Kong to issue rights shares at a discount to the market price in order to enhance the attractiveness of a rights issue exercise; (vii) the Rights Issue is the most appropriate means to raise fund and is beneficial to the Independent Shareholders as a whole after considering that (a) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and to take up their respective entitlements in full at the same price to maintain respective shareholding interests in the Company; (b) the Qualifying Shareholders who decide not to take up their assured entitlements under the Rights Issue are allowed to sell the nil-paid Rights Shares in the market for economic benefits; (c) the Group is able to raise funds without further increasing its debt liability and further worsen its interest burdens; and (d) the Company is able to strengthen its capital base and liquidity so as to reduce its gearing ratio, we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned and reasonable so far as the Independent Shareholders are concerned.

Application for excess Rights Shares

As set out in the Letter from the Board, Qualifying Shareholders may apply, by way of excess application, for any unsold entitlements of the Excluded Shareholders and for any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders.

Application for excess Rights Shares may be made by completing the EAF for application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares being applied for at its discretion and on a fair and equitable basis on the following principles:

- (1) subject to the availability of excess Rights Shares, preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings where it appears to the Directors that such applications are not made with the intention to abuse such mechanism; and

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- (2) subject to the availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to the Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied for by them (i.e. the Qualifying Shareholders applying for a smaller number of Rights Shares will be allocated a higher percentage of the excess Rights Shares they have applied for; whereas the Qualifying Shareholders applying for a larger number of Rights Shares will be allocated a lower percentage of the excess Rights Shares they have applied for (although they will receive a greater number of Rights Shares than those applying for a smaller number)), and with board lot allocations to be made on a best effort basis.

We are not aware of the aforesaid allocation arrangement is unusual to other rights issue exercises conducted by the Comparables and consider such allocation arrangement is in line with normal market practice.

Risk associated with the Rights Issue

Independent Shareholders and potential investors should note that in the event that the Underwriter terminates the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled or waived (as applicable) on or before 4:00 p.m. on 19 September 2014 (or such other dates as the Company and the Underwriter may agree), the Rights Issue will not proceed. Any Shareholders or other persons dealing in the Shares prior to the date on which the conditions of the Rights Issue are fulfilled or waived (as applicable), and/or dealing in the Rights Shares in their nil-paid form during the period as aforesaid, will bear the risk that the Rights Issue may not become unconditional or may not proceed. Independent Shareholders and potential investors are advised to exercise caution when dealing in the Shares. If in any doubt, investors should consider obtaining professional advice on this.

3. The Underwriting Agreement and the underwriting arrangements

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to fully underwritten not less than 676,793,400 Rights Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before Record Date) and not more than 954,707,034 Rights Shares (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date). Further details of the terms of the Underwriting Agreement are set out in the section headed “L. The Underwriting Agreement” in the Letter from the Board.

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Pursuant to the Underwriting Agreement, the underwriting commission payable by the Company to the Underwriter is 2.50% of the aggregate Subscription Price in respect of the Underwritten Shares for which the Underwriter has agreed to subscribe (the “**Underwriting Commission**”).

As illustrated in the Table IV set out under the sub-section headed “Comparison with the recent rights issue exercises” above, the underwriting commissions of the Comparables ranged from nil to 3.50%, with an average of approximately 2.18%. The Underwriting Commission is within the range and close to the average of the underwriting commission of the Comparables, we consider that the Underwriting Commission is in line with the common market practice.

Save for the Underwriting Commission, we have also reviewed other major terms of the Underwriting Agreement, including but not limited to, the termination of the Underwriting Agreement and conditions of the Rights Issue (details of which are set out in the Letter from the Board) and we are not aware of any terms which are unusual. As such, we are of the view that the terms of the Underwriting Agreement are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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4. Potential dilution on the shareholding interests of the Independent Shareholders

Set out below is the existing shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company immediately after completion of the Rights Issue:

Scenario I — Assuming (i) no issue of new Shares; (ii) no exercise of the Outstanding Options and the Existing Convertible Notes; and (iii) no repurchase of Shares on or before the Record Date

	As at the Latest Practicable Date		Immediately after completion of the Rights Issue and assuming all the Rights Shares are taken up by the Qualifying Shareholders		Immediately after completion of the Rights Issue and assuming no Qualifying Shareholders (other than Dr. Cheung, Mr. Cheung and Biochem Investments) takes up the Rights Issue (Note 4)	
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
Shareholders						
— Dr. Cheung (Note 1)	40,322,700	13.53	161,290,800	13.53	161,290,800	13.53
— Biochem Investments (Note 1)	31,332,000	10.52	125,328,000	10.52	125,328,000	10.52
— Mr. Cheung (Note 2)	700,000	0.23	2,800,000	0.23	2,800,000	0.23
Public Shareholders						
— The sub-underwriters and the subscribers procured by them to take up the Rights Shares (Note 5)	—	—	—	—	676,793,400	56.79
— Other public shareholders	225,597,800	75.72	902,391,200	75.72	225,597,800	18.93
Total	<u>297,952,500</u>	<u>100.00</u>	<u>1,191,810,000</u>	<u>100.00</u>	<u>1,191,810,000</u>	<u>100.00</u>

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Scenario II — Assuming (i) no repurchase of Shares; and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date

	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue and assuming all the Rights Shares are taken up by the Qualifying Shareholders		Immediately after completion of the Rights Issue and assuming no Qualifying Shareholders (other than Dr. Cheung, Mr. Cheung and Biochem Investments) takes up the Rights Issue (Note 4)	
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
Shareholders						
— Dr. Cheung (Note 1)	40,322,700	10.32	161,290,800	10.32	161,290,800	10.32
— Biochem Investments (Note 1)	31,332,000	8.02	125,328,000	8.02	125,328,000	8.02
— Mr. Cheung (Note 2)	700,000	0.18	2,800,000	0.18	2,800,000	0.18
Public Shareholders						
— The sub-underwriters and the subscribers procured by them to take up the Rights Shares (Note 5)	—	—	—	—	954,707,034	61.11
— Holders of the Share Options other than Mr. Cheung	13,850,000	3.55	55,400,000	3.55	13,850,000	0.89
— Holders of the Remaining Placing Convertible Notes (Note 3)	78,787,878	20.17	315,151,512	20.17	78,787,878	5.04
— Other public shareholders	225,597,800	57.76	902,391,200	57.76	225,597,800	14.44
Total	<u>390,590,378</u>	<u>100.00</u>	<u>1,562,361,512</u>	<u>100.00</u>	<u>1,562,361,512</u>	<u>100.00</u>

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Notes:

1. Biochem Investments, holding 31,332,000 Shares as at the Latest Practicable Date, is a company wholly-owned by Dr. Cheung. Dr. Cheung has irrevocably undertaken to the Company and the Underwriter that (i) she will accept and will procure her nominees to accept all the Rights Shares to be provisionally allotted to her and her nominees pursuant to the Rights Issue in respect of the Shares held by her and her nominees as at the Record Date; (ii) she will not dispose of or transfer, or agree to dispose of or transfer, any Shares held by her and her wholly-owned Biochem Investments prior to the Record Date; (iii) she will not apply for any additional excess Rights Shares under the excess application arrangement under the Rights Issue; and (iv) she will not transfer the Subscription Convertible Notes to any third party and will not convert the Subscription Convertible Notes into Shares on or prior to the Record Date.
2. Mr. Cheung is an executive Director and also the elder brother of Dr. Cheung. Mr. Cheung is interested in 700,000 Shares and has undertaken to the Company and the Underwriter that (i) he will accept all the Rights Shares to be provisionally allotted to him pursuant to the Rights Issue in respect of the Shares held by him as at the Record Date; (ii) he will not dispose of or transfer, or agree to dispose of or transfer, any Shares held by him prior to the Record Date; (iii) he will not apply for any additional excess Rights Shares under the excess application arrangements under the Rights Issue; and (iv) he will not exercise any of the subscription rights attached to the Share Options granted by the Company to him from the date of the Underwriting Agreement to the Record Date.
3. Prime Pacific has given an irrevocable undertaking in favour of the Company and the Underwriter that it will not transfer or deal with the Prime Pacific Convertible Note and will not exercise the conversion rights attaching to the Prime Pacific Convertible Note from the date of the Underwriting Agreement to the close of business on the Record Date. As a result, only the Remaining Placing Convertible Notes are exercisable on or before the Record Date.
4. This scenario is for illustrative purpose only and will not occur. Pursuant to the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscribers to subscribe for any Untaken Shares:
 - a. the Underwriter shall not subscribe, for its own account, for such number of the Untaken Shares which will result in the shareholding of it and parties acting in concert with it in the Company to exceed 19.9% of the voting rights of the Company upon completion of the Rights Issue and shall take such steps such that the Company can comply with its obligations under the GEM Listing Rules to maintain the public float of the Company; and
 - b. the Underwriter shall use its best endeavours to ensure that each of the subscribers of the Untaken Shares procured by it (i) shall be third parties independent of and not connected with the directors, chief executive or substantial shareholders of the Company or their subsidiaries or any of their respective close associates; (ii) is not parties acting in concert with the Underwriter or any connected persons (as defined in the GEM Listing Rules) of the Company or any of their respective close associates; and (iii) will not subscribe for the Untaken Shares to the extent that an obligation to make a mandatory general offer will arise under the Takeovers Code or that he/she/it will become substantial shareholders of the Company under the GEM Listing Rules as a result of such subscription.

The Company has been informed by the Underwriter that the Underwriter has already entered into sub-underwriting agreements with sub-underwriters to ensure the fulfilment of its obligations set out in paragraphs (a) and (b) above.

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5. The Underwriter confirmed with the Company that, as at the Latest Practicable Date, it had sub-underwritten all of its underwriting obligations under the Underwriting Agreement to 14 sub-underwriters. Pursuant to the sub-underwriting agreements entered into between the Underwriter and the sub-underwriters, the sub-underwriters have agreed, in aggregate, to sub-underwrite a maximum of 954,707,034 Rights Shares representing approximately 81.48% of the maximum number of Rights Shares and approximately 61.11% of the total number of Shares in issue immediately after completion of the Rights Issue (assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date). In the shareholding tables above, the Untaken Shares are assumed to be taken up by the sub-underwriters at their maximum sub-underwriting commitment.

According to the Underwriter, the sub-underwriters were (a) not parties acting in concert with it in relation to the Company and (b) third parties independent of and not connected with the directors, chief executive or substantial shareholders of the Company or their subsidiaries or any of their respective close associates; save that one of the sub-underwriters (i.e. Kuk Po Shun, whose interest in the securities of the Company are set out in the section headed “Disclosure of interests by substantial shareholders” under Appendix III to this circular) had agreed to sub-underwrite 142,000,000 Rights Shares which together with the Shares fall to be issued upon exercise of the conversion rights attaching to the convertible notes of the Company held by him, will not exceed 9.9% of the Shares (upon completion of the Rights Issue and assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date), each of the other sub-underwriters had agreed to sub-underwrite less than 5% of the Shares (upon completion of the Rights Issue and assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date).

The Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future business development of the Company should they wish to do so.

For Qualifying Shareholders who take up their assured entitlements in full under the Rights Issue, they will be able to maintain their proportional shareholding interests in the Company after completion of the Rights Issue.

For Qualifying Shareholders who do not take up the Rights Shares to which they are entitled should note that their shareholdings in the Company will be diluted upon completion of the Rights Issue. In such case, the percentage of shareholding of other public shareholders will be reduced from approximately 75.72% to approximately 18.93% in case of no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date as shown in Scenario I or from approximately 57.76% to approximately 14.44% in case of no repurchase of Shares and the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date) as shown in Scenario II.

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Meanwhile, those Qualifying Shareholders who wish to increase their proportional shareholding interests in the Company through the Rights Issue may, subject to availability, (i) acquire additional nil-paid rights in the market; and (ii) apply for the excess Rights Shares as the Rights Issue allows for the excess application of the Rights Shares.

We are aware of the aforesaid potential dilution to the Independent Shareholders' proportional shareholding interests in the Company as discussed in Scenarios I and II, however, having taken into account that (i) the Independent Shareholders are offered an opportunity to attend and vote for or against the relevant resolution in relation to the Rights Issue and the Underwriting Agreement at the EGM; (ii) the Qualifying Shareholders can elect to accept the Rights Issue or not; (iii) the Qualifying Shareholders have the opportunities to sell their nil-paid rights to subscribe for the Rights Shares in the market for economic benefits; (iv) the Rights Issue offers the Qualifying Shareholders a chance to subscribe for their Rights Shares for the purpose of maintaining their respective pro-rata shareholding interests in the Company at a relatively deep discount as compared to the historical and prevailing market price of the Shares; and (v) those Qualifying Shareholders who take up their assured entitlements in full under the Rights Issue will be able to maintain their respective pro-rata shareholding interests in the Company after completion of the Rights Issue. Accordingly, we concur with the Directors that the potential dilution effect on the existing shareholding interests of the Independent Shareholders, which may only result when the Qualifying Shareholders do not subscribe for their pro-rata Rights Shares, to be acceptable.

6. Financial effects arising from the Rights Issue

Net tangible assets value

According to the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular, the adjusted consolidated net tangible assets of the Group attributable to the Shareholders was approximately HK\$146.4 million as at 31 March 2014. Upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets of the Group will be approximately HK\$230.7 million, representing an increase of approximately 57.6%, as resulted from the estimated net proceeds from the Rights Issue of approximately HK\$84,390,000 is calculated based on 893,857,500 Rights Shares to be issued at the subscription price of HK\$0.10 per share after deduction of estimated related expenses.

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However, the Independent Shareholders should note that the total number of shares after the Rights Issue will be increased from 297,952,500 Shares to not less than 1,191,810,000 Shares (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and not more than 1,562,361,512 Shares (assuming no repurchase of Shares and the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date).

Working Capital

With reference to the annual report of the Company for the year ended 31 March 2014 (the “AR2014”), the cash and cash equivalents of the Group as at 31 March 2014 was approximately HK\$99.6 million. Immediately after completion of the Rights Issue, the cash and cash equivalents of the Group will increase by not less than approximately HK\$84.39 million to not more than approximately HK\$111.68 million as a result of the estimated net proceeds from the Rights Issue. As such, the liquidity position of the Group will be improved.

Gearing ratio

According to the AR2014, the Group’s gearing ratio was approximately 22.7% as at 31 March 2014. Immediately upon completion of the Rights Issue, assuming the total borrowings of the Group would remain unchanged whereas the shareholders’ equity of the Group will increase by not less than approximately HK\$84.39 million to not more than approximately HK\$111.68 million. As such, the gearing ratio of the Group would be decreased and improved.

However, it should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

7. Recommendation

Having taken into account the above principal factors and reasons, in particular:

- (i) the Rights Issue would strengthen the capital base of the Company and enhance the financial position of the Group so as to prepare for the future business development of the Group and is the best financing alternative currently available to the Company as discussed in the paragraph headed “Reasons for the Rights Issue and the use of proceeds” under the section headed “1. Background of and reasons for the Rights Issue” above;

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- (ii) the overall liquidity of the Shares was relatively low during the Review Period, the Subscription Price being set at a relatively substantial discount to the prevailing market prices of the Shares to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue as discussed in the paragraph headed “(i). Historical Share price performance” and “(ii). Historical trading volume of the Shares” under the section headed “2. Principal terms of the Rights Issue” above;
- (iii) the discounts as represented by the Subscription Price falls within the LTD Market Range and the TERP Market Range which are in line with the recent market trends and the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned as discussed in the paragraph headed “(iii). Comparison with the recent rights issue exercises” under the section headed “2. Principal terms of the Rights Issue” above;
- (iv) the potential dilution of the shareholding interests of the Qualifying Shareholders who do not subscribe for their pro-rata Rights Shares is acceptable as discussed in the section headed “4. Potential dilution on the shareholding interests of the Independent Shareholders” above; and
- (v) the overall favourable financial effects arising from the Rights Issue as discussed in the section headed “5. Financial effects arising from the Rights Issue” above,

we are of the view that (i) the terms of the Rights Issue (including the Underwriting Agreement) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Independent Shareholders and potential investors should note that in the event that the Underwriter terminates the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled or waived (as applicable) on or before 4:00 p.m. on 19 September 2014 (or such other dates as the Company and the Underwriter may agree), the Rights Issue will not proceed. Any Shareholders or other persons dealing in the Shares prior to the date on which the conditions of the Rights Issue are fulfilled or waived (as applicable), and/or dealing in the Rights Shares in their

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nil-paid form during the period as aforesaid, will bear the risk that the Rights Issue may not become unconditional or may not proceed. Independent Shareholders and potential investors are advised to exercise caution when dealing in the Shares. The Independent Shareholders and potential investors are recommended to consult their own professional advisers if they are in doubt.

Yours faithfully,
For and on behalf of
Fulbright Capital Limited
Arthur Kan
Director of Corporate Finance

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group together with the notes to the consolidated financial statements for each of the three years ended 31 March 2014, 2013 and 2012 are disclosed in the annual reports of the Company for the years ended 31 March 2014 (pages 52 to 160), 2013 (pages 55 to 152) and 2012 (pages 47 to 144) respectively.

The auditors of the Company have not issued any qualified opinion on the Group's financial statements for the financial years ended 31 March 2014, 2013 and 2012.

The aforementioned annual reports of the Company are published on both the website of the Company (www.sausantong.com) and the following website of the Stock Exchange:

Please see below quick link to the annual report for the year ended 31 March 2014 of the Company:

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

Please see below quick link to the annual report for the year ended 31 March 2013 of the Company:

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

Please see below quick link to the annual report for the year ended 31 March 2012 of the Company:

<http://www.hkexnews.hk/listedco/listconews/GEM/2012/0629/GLN20120629096.pdf>

2. INDEBTEDNESS**Borrowings**

As at the close of business on 30 June 2014, being the most recent practicable date for the purpose of statement of indebtedness prior to the printing of this circular, the Group had total borrowings of approximately HK\$108,708,000, comprising (i) secured bank loans of approximately HK\$40,291,000 which were secured by pledge of certain trade receivables amounting to approximately HK\$51,698,000 and properties owned by certain staff members of the Group, (ii) unsecured amount due

to a Director of approximately HK\$730,000, (iii) unsecured amounts due to related parties of approximately HK\$1,511,000, (iv) unsecured interest-bearing convertible notes with carrying value and principal amount of approximately HK\$48,906,000 and HK\$50,000,000 respectively and (v) other unsecured long-term liability with carrying value and principal amount of approximately HK\$17,270,000 and HK\$20,000,000 respectively.

Contingent Liabilities

As at the close of business on 30 June 2014, the Group did not have any material contingent liabilities.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 30 June 2014, 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 30 June 2014 up to and including the Latest Practicable Date.

3. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that taking into account the present internal financial resources of the Group, the available banking facilities and the net proceeds to be derived from the Rights Issue, in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements, that is for at least twelve months from the date of publication of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2014, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. PROSPECT OF THE GROUP

The Group records a satisfactory performance in the year ended 31 March 2014 (the “Year Under Review”). A turnover amounting to approximately HK\$1,362,916,000 was recorded, representing an increase of 19.4% from approximately HK\$1,141,662,000 of the previous year. The increase was mainly attributable to the remarkable growth in the distribution sales of our Shanghai Dong Fang Ri Hua Sales Co. Ltd. (“Dong Fang”). Turnover from Dong Fang increased by 23.1% to approximately HK\$1,241,842,000 during the Year Under Review (2013: approximately HK\$1,008,752,000). The management is confident that the revenues generated from the distribution business will continue to grow and bring along stable and sizeable revenue to the Group, as vast swathes of the Chinese population begin to have increasing disposable income to spend on high-end products. Heedless of an unfavorable environment in the industry in which it operates, the Group has successfully leveraged on its leading market position and broad-based clientele. Our beauty, slimming and spa centre in both Hong Kong and in the PRC deliver amiable performance during the Year Under Review. Turnover generated from all our beauty, slimming and spa centres amounted to approximately HK\$89,509,000 (2013: approximately HK\$96,681,000) comparable to last year, whereas the franchise cooperation business made a contribution of HK\$30,195,000 to the turnover of the Group (2013: HK\$34,986,000).

Gross profit amounted to approximately HK\$173,166,000 for the Year Under Review, compared to HK\$167,564,000 for the previous year. Profit attributable to owners of the Company was approximately HK\$3,221,000, compared to HK\$6,177,000 of last year. The decreases were mainly attributable to a receding performance of the beauty and slimming segment under a shift of business focus to high-end products and services with a lower margin but more rosy prospects, as well as a transient setback in Hong Kong market during the Year Under Review. Besides, the impact of negative factors included higher sales costs and appreciation of Renminbi. During the Year Under Review, administrative expenses amounted to HK\$85,223,000 (2013: approximately HK\$71,829,000), the sharp increase of staff costs and rental is the major reason of the increase of administrative expenses.

Looking back at 2013, the worldwide economy was deeply shaken by the fiscal cliff in the United States and the gradual exit of related subsidy policies in China. The much looked forward to recovery failed to show signs of optimism. But after years of disappointment, things are looking up in the advanced world and the global economy is expected to mildly pick up on a better outlook to stronger recent indicators and increased economic activities in the US and Eurozone. China, seeing its problems as

already past its worst, is expected to benefit from improved exports to the developed countries. In view of the possible economic growth, the Group will strive for stable growth in the coming year through a combination of cost control efforts and quality assurance measures for its services and products. Expansion initiatives will concentrate on the direction of diversification with the research and development of new treatments and products and development of e-commerce to cater to the needs of customers from different categories.

In China, consumers, manufacturers and regulatory authorities have been alarmed by the safety issues of beauty and slimming products and services recently. It is believed that the promulgation of various hygienic standards can help to regulate the behavior of beauty and slimming industry players and protect the rights of consumers. While this is going to exert a heavy blow on the lower-end institutions causing them to exit from the competition, it is expected that the resulted higher entry-barrier and elimination of sub-par operators will benefit the development of high-end participants such as the Group. Another imminent trend for the industry is the standardisation of technicians. In view of this, the Group is actively training its teams of talents to enhance the provision of consistent service level across different regions.

With the rapid growing population of internet users in China and the emergence of the country as the world's second-largest e-tail market, e-commerce is the inevitable direction of development for many industries, but only innovative business models that can facilitate the invincible position will have a prosperous future. Positioning as more than a replacement channel for purchases that otherwise would have taken place offline, our tripartite website BeautyU online platform serves three purposes at one stop: improving brand visibility for Sau San Tong, promoting entrepreneurial opportunities for potential partners of beauty and slimming service providers, and enhancing customer experience for our retail customers. We believe this unique e-commerce engine will catalyse a "leapfrog" move, spur incremental consumption in the new era of the digital economy.

The beauty and slimming industry has always been taken as one of the more traditional industries that thrives on the orthodox philosophy of providing attentive and high quality service to its customers. The emergence of the internet has, however, gradually upheaved this traditional industry in once again digging into the potential of the industry with the new model of thought it brings along to enhance the value of industry. In response to this, the Group continued to invest in the enhancement of its online business platform, implement the digitalised management system and promote online marketing of the Group's brand image

during the Year Under Review. The migration from the traditional operating model to the new digital age will be not short of obstacles from acknowledging to learning and from preparation to commencement. We will continue to strive our best and gear up ourselves to embrace the arrival of the imminent new era, with the aims of introducing new power and elements to the beauty industry.

Looking ahead into the future, the global macroeconomic environment will remain on the road of slow recovery riddled with uncertainties in 2014. In spite of this, the Group remains meticulously optimistic on the long-term future prospects. We will continue to closely monitor the economic environmental changes, sustain meticulous and stringent strategies for different facets of our business operation, and make appropriate deployment as needed. Paralleled to these, the Group will further consolidate its existing advantages in a proactive manner and prepare for improvements in the consumer market environment in the future.

6. FOREIGN EXCHANGE

The Group is not exposed to significant currency risk as most sales, income, purchases and expenses are denominated in the functional currency of the operations to which they relate. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 7.31 of the GEM Listing Rules is set out below to illustrate the effects of the Rights Issue on the consolidated net tangible assets of the Group as if the Rights Issue had taken place on 31 March 2014.

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, may not give a true picture of the financial position of the Group following the Rights Issue.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 March 2014 <i>HK\$'000</i>	Fully exercise of subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes <i>HK\$'000</i>	Estimated net proceeds from the Rights Issue <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company immediately after the completion of the Rights Issue <i>HK\$'000</i>
Based on 893,857,500 Rights Shares to be issued	<u>146,358</u> <i>(Note 1)</i>	<u>—</u>	<u>84,390</u> <i>(Note 2)</i>	<u>230,748</u>
Based on 1,171,771,134 Rights Shares to be issued	<u>146,358</u> <i>(Note 1)</i>	<u>33,561</u> <i>(Note 3)</i>	<u>111,680</u> <i>(Note 4)</i>	<u>291,599</u>
Audited consolidated net tangible assets of the Group attributable to owners of the Company per share before the completion of the Rights Issue <i>(Note 5)</i>				<u>HK\$0.49</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after the completion of the Rights Issue <i>(Note 6)</i>				<u>HK\$0.19</u>
Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after the completion of the Rights Issue (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full) <i>(Note 7)</i>				<u>HK\$0.19</u>

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Notes:

1. It represents the consolidated net assets of the Group attributable to owners of the Company of approximately HK\$153,400,000 less goodwill and intangible assets of approximately HK\$320,000 and HK\$6,722,000 respectively as at 31 March 2014, which are extracted from the published audited consolidated statement of financial position of the Group as at 31 March 2014.
2. The estimated net proceeds from the Rights Issue of approximately HK\$84,390,000 is calculated based on 893,857,500 Rights Shares to be issued (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares) at the subscription price of HK\$0.10 per share after deduction of estimated related expenses.
3. Assuming there are no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full, the consolidated net tangible assets of the Group attributable to owners of the Company would be increased by approximately HK\$33,561,000 in total, being HK\$8,183,000 (weighted average number of Outstanding Options of HK\$0.5908 multiplied by 13,850,000 Share Options) plus HK\$25,378,000 (the carrying amount of the liability component of the Remaining Placing Convertible Notes as at 31 March 2014).
4. The estimated net proceeds for the Rights Issue of approximately HK\$111,680,000 is calculated based on 1,171,771,134 Rights Shares to be issued (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full) at the subscription price of HK\$0.10 per share after deduction of estimated related expenses.
5. The audited consolidated net tangible assets of the Group attributable to owners of the Company per share before the completion of the Rights Issue is calculated based on HK\$146,358,000 divided by 297,952,500 shares, being the number of Shares in issue as at 31 March 2014.
6. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after the completion of the Rights Issue is calculated based on HK\$230,748,000 divided by 1,191,810,000 shares, comprising 297,952,500 shares, being the number of Shares in issue as at 31 March 2014, and 893,857,500 Rights Shares to be issued.
7. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share immediately after the completion of the Rights Issue is calculated based on HK\$291,599,000 divided by 1,562,361,512 shares, comprising 390,590,378 shares, being the number of Shares in issue immediately before the completion of the Rights Issue (assuming no repurchase of Shares and the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full), and 1,171,771,134 Rights Shares to be issued.
8. No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2014.

2. INDEPENDENT REPORTING ACCOUNTANT’S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

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



2nd Floor, 625 King’s Road,
North Point, Hong Kong

TO THE BOARD OF DIRECTORS OF SAU SAN TONG HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Sau San Tong Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) by the directors for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 March 2014 as set out on pages 73 to 75 of the circular issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the directors have compiled the Pro Forma Financial Information are described on pages 73 to 75 of the circular.

The Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed Rights Issue on the Group’s consolidated net tangible assets as at 31 March 2014 as if the proposed Rights Issue had taken place as at 31 March 2014. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s consolidated financial statements for the year ended 31 March 2014, on which an audit report has been published.

Directors’ Responsibility for the Pro Forma Financial Information

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

Reporting Accountant's Responsibilities

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

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

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

The purpose of Pro Forma Financial Information included in the circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 31 March 2014 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

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

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 6 August 2014

Chan Kwan Ho, Edmond

Practising certificate number P02092

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL OF THE COMPANY

- (a) As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised:</i>	<i>Nominal value:</i>
	<i>HK\$</i>
<u>1,000,000,000</u> Ordinary shares of HK\$0.01 each	<u>10,000,000.00</u>
<i>Issued and fully paid or credited as fully paid:</i>	
<u>297,952,500</u>	<u>2,979,525.00</u>

- (b) Assuming (i) the Increase in Authorised Share Capital is approved at the EGM; (ii) no issue of new Shares, (iii) no exercise of the Outstanding Options and the Existing Convertible Notes and (iv) no repurchase of Shares on or before the Record Date, the following table illustrates the share capital structure of the Company immediately after completion of the Rights Issue:

<i>Authorised:</i>	<i>Nominal value:</i>
	<i>HK\$</i>
<u>2,000,000,000</u> Ordinary shares of HK\$0.01 each	<u>20,000,000.00</u>
<i>Issued and fully paid or credited as fully paid:</i>	
297,952,500 Shares in issue	2,979,525.00
<u>893,857,500</u> Rights Shares to be issued	<u>8,938,575.00</u>
<u>1,191,810,000</u>	<u>11,918,100.00</u>

- (c) Assuming (i) the Increase in Authorised Share Capital is approved at the EGM; (ii) no repurchase of Shares and (iii) the subscription or conversion rights attaching to the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date, the following table illustrates the share capital structure of the Company immediately after completion of the Rights Issue:

<i>Authorised:</i>	<i>Nominal value:</i>
	<i>HK\$</i>
<u>2,000,000,000</u> Ordinary shares of HK\$0.01 each	<u>20,000,000.00</u>
 <i>Issued and fully paid or credited as fully paid:</i>	
390,590,378 Shares in issue	3,905,903.78
<u>1,171,771,134</u> Rights Shares to be issued	<u>11,717,711.34</u>
<u>1,562,361,512</u>	<u>15,623,615.12</u>

All the Shares in issue rank, pari passu in all respects with each other including rights to dividends, voting and return of capital. The Rights Shares, when allotted, issued and fully paid, will rank pari passu with each other and the then existing Shares in issue in all respects including rights to dividends, voting and return of capital.

The number of Shares in issue as at the Latest Practicable Date was 297,952,500. As at the Latest Practicable Date, no Share had been issued as a result of the conversion of any of the Existing Convertible Notes. Further, no Shares had been issued as a result of the exercise of any Outstanding Options since the end of the last financial year of the Company, being 31 March 2014, to the Latest Practicable Date.

Upon the Record Date, the conversion price of the Existing Convertible Notes will be subject to adjustments and the number of Shares comprised in the Existing Convertible Notes will be adjusted correspondingly.

Save for the Existing Convertible Notes with outstanding principal amount of HK\$50,000,000 convertible into a maximum of 151,515,150 new Shares and the Outstanding Options entitling the holders thereof to subscribe for 15,850,000 new Shares, as at the Latest Practicable Date, the Company did not have any other outstanding options, warrants or convertible securities which confer the rights to subscribe for the Shares, or rights affecting the Shares, and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option.

As at the Latest Practicable Date, there were no arrangement under which future dividends are waived or agreed to be waived.

(d) Outstanding Options

Brief particulars of the Outstanding Options granted but not yet exercised by the relevant holders under the Share Option Scheme as at the Latest Practicable Date were as follows:

	Date of grant	Exercise period	Exercise price per Share Option	Number of Share Options
Share Options granted to a Director (Note 1)	2 March 2011	2 March 2011 – 1 March 2016	HK\$0.660	2,000,000
Share Options granted to employees	2 March 2011	2 March 2011 – 1 March 2016	HK\$0.660	7,970,000
Share Options granted to suppliers/ consultants	22 February 2012	22 February 2012 – 21 February 2017	HK\$0.497	5,880,000
total Outstanding Options				<u>15,850,000</u>

Note 1: The Share Options were granted to Mr. Cheung.

Save as aforesaid, as at the Latest Practicable Date, there were no other outstanding Share Options under the Share Option Scheme.

3. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company or their respective associates in shares and underlying shares (the “Shares”) of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and/or short positions which they are deemed or taken to have under such provisions of the SFO, or which will be required, pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long position in the Shares and underlying Shares:

Name of Directors	Nature of interest	Number of Shares	Number of underlying Shares	Approximate percentage of interest (Note 6)
Dr. Cheung Yuk Shan, Shirley	(i) beneficial owner	161,290,800 (Note 1)	60,606,060 (Note 4)	14.20%
	(ii) controlled corporation (Note 1)	125,328,000 (Note 2)	—	8.02%
Mr. Cheung Ka Heng, Frankie	(i) beneficial owner	2,800,000 (Note 3)	2,000,000 (Note 5)	0.31%

Note 1: It comprises (i) 40,322,700 Shares directly held by Dr. Cheung; and (ii) 120,968,100 Rights Shares provisionally allotted to and undertaken to be subscribed by Dr. Cheung and her nominees.

Note 2: It comprises (i) 31,332,000 Shares directly held by Biochem Investments, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Dr. Cheung; and (ii) 93,996,000 Rights Shares provisionally allotted to and undertaken to be subscribed by Dr. Cheung and her nominees.

Note 3: It comprises (i) 700,000 Shares directly held by Mr. Cheung; and (ii) 2,100,000 Rights Shares provisionally allotted to and undertaken to be subscribed by Mr. Cheung.

Note 4: The Subscription Convertible Note with a principal amount of HK\$20,000,000 was issued by the Company to Dr. Cheung on 20 December 2013 and the entire amount of which remained outstanding as at the Latest Practicable Date. Assuming full conversion of all outstanding Subscription Convertible Note at HK\$0.33 per conversion share, 60,606,060 new Shares will be issued.

Note 5: On 2 March 2011, 2,000,000 Share Options were granted by the Company to Mr. Cheung at the subscription price of HK\$0.66 per Share pursuant to the Share Option Scheme, which remained outstanding as at the Latest Practicable Date.

Note 6: The percentage of shareholdings in the Company is calculated with reference to the number of Shares to be issued immediately after completion of the Rights Issue assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date.

Save as disclosed above, as at Latest Practicable Date, none of the Directors or chief executive of the Company or their respective associates had any personal, family, corporate or other interests or short positions in the Shares of the Company or its associated corporations (within the meaning of Part XV of SFO) which fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO or which are 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. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to any Directors or chief executive of the Company, the following interests of which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 10% or more of the issued 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 position in the Shares and underlying Shares:

Substantial Shareholder	Nature of interest	Number of Shares	Number of underlying Shares	Approximate percentage of interest (Note 6)
Biochem Investments	beneficial owner	125,328,000 (Note 1)	—	8.02%
Dr. Cheung Yuk Shan, Shirley	(i) beneficial owner	161,290,800 (Note 2)	60,606,060 (Note 5)	14.20%
	(ii) controlled corporation	125,328,000 (Note 1)	—	8.02%

Substantial Shareholder	Nature of interest	Number of Shares	Number of underlying Shares	Approximate percentage of interest <i>(Note 6)</i>
Get Nice Securities Limited	beneficial owner	954,707,034 <i>(Note 3)</i>	—	61.11%
Get Nice Incorporated	controlled corporation	954,707,034 <i>(Note 3)</i>	—	61.11%
Get Nice Holdings Limited	controlled corporation	954,707,034 <i>(Note 3)</i>	—	61.11%
Kuk Po Shun	beneficial owner	142,000,000 <i>(Note 4)</i>	12,121,212 <i>(Note 4)</i>	9.86%

Note 1: It comprises (i) 31,332,000 Shares directly held by Biochem Investments, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Dr. Cheung; and (ii) 93,996,000 Rights Shares provisionally allotted to and undertaken to be subscribed by Dr. Cheung and her nominees.

Note 2: It comprises (i) 40,322,700 Shares directly held by Dr. Cheung; and (ii) 120,968,100 Rights Shares provisionally allotted to and undertaken to be subscribed by Dr. Cheung and her nominees.

Note 3: Based on the notices of disclosure of interests of Get Nice Securities Limited, Get Nice Incorporated and Get Nice Holdings Limited filed with the Stock Exchange, Get Nice Securities Limited is interested in 954,707,034 Rights Shares by virtue of the Underwriting Agreement. Get Nice Securities Limited is wholly-owned by Get Nice Incorporated which in turn is wholly-owned by Get Nice Holdings Limited.

Note 4: Based on the notices of disclosure of interests of Kuk Po Shun filed with the Stock Exchange, Kuk Po Shun is interested in 142,000,000 Rights Shares by virtue of the sub-underwriting agreement entered into with Get Nice Securities Limited. Furthermore, a convertible note (being part of the Placing Convertible Notes) with a principal amount of HK\$4,000,000 was issued by the Company to Kuk Po Shun through the placing agent on 20 December 2013 and the entire amount of which remained outstanding as at the Latest Practicable Date. Assume full conversion of such convertible note currently held by Kuk Po Shun at HK\$0.33 per conversion share, 12,121,212 new Shares will be issued.

Note 5: The Subscription Convertible Note with a principal amount of HK\$20,000,000 was issued by the Company to Dr. Cheung on 20 December 2013 and the entire amount of which remained outstanding as at the Latest Practicable Date. Assuming full conversion of the Subscription Convertible Note at HK\$0.33 per conversion share, 60,606,060 new Shares will be issued.

Note 6: The percentage of shareholdings in the Company is calculated with reference to the number of Shares to be issued immediately after completion of the Rights Issue assuming (i) no repurchase of Shares and (ii) the Outstanding Options (other than the Share Options held by Mr. Cheung) and the Remaining Placing Convertible Notes are exercised in full on or before the Record Date.

Saved as disclosed above, as at 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 and Short Position in Shares” above, has 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. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

6. DIRECTORS’ INTERESTS IN THE GROUP’S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which have been, since 31 March 2014 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of or leased to any members of the Group, or are proposed to be acquired or disposed of or leased to any members of the Group.

As at the Latest Practicable Date, none of the Directors were materially interested in any contracts or arrangements subsisting at the Latest Practicable Date, which are significant to the business of the Group.

7. DIRECTORS’ INTERESTS IN COMPETING BUSINESS

None of the Directors or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) has any interest in a business which compete or might compete with the business of the Group.

8. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, the Group was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has made its statement in this circular:

Name	Qualification
Fulbright Capital	a licensed corporation permitted to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Baker Tilly Hong Kong Limited	Certified Public Accountant

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of their respective report and/or letter and/or opinion (as the case may be), and/or the references to its name included in the form and context in which it respectively appears.

As at the Latest Practicable Date, none of the experts above have any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interests, either directly or indirectly, in any assets which have been acquired or disposed of or leased to any members of the Group, or are proposed to be acquired or disposed of or leased to any members of the Group, respectively, since 31 March 2014 (being the date to which the latest published audited financial statements of the Company were made up).

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2014, the date to which the latest published audited financial statements of the Group were made up.

11. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Group within two years immediately preceding the date of this Circular, which are or may be material:

- (a) the placing agreement dated 7 November 2013 entered into between the Company and Get Nice Securities Limited whereby Get Nice Securities Limited agreed to act as the placing agent for the Company to procure subscribers on a best effort basis during the placing period to subscribe for up to HK\$30,000,000 in aggregate principal amount of the Placing Convertible Notes with an initial conversion price of HK\$0.33 per conversion share;
- (b) the subscription agreement dated 7 November 2013 entered into between the Company as issuer and Dr. Cheung Yuk Shan, Shirley as subscriber whereby the Company agreed to issue, and Dr. Cheung Yuk Shan, Shirley agreed to subscribe for the Subscription Convertible Note in the principal amount of HK\$20,000,000 with an initial conversion price of HK\$0.33 per conversion share;
- (c) the investment agreement and shareholders' agreement dated 28 December 2012 entered into among the Company, Bravo Media Limited, Beauty University Management Limited and Merit Wise Enterprises Limited collectively as the parties, whereby Merit Wise Enterprises Limited agreed to invest in Beauty University Management Limited and the parties agreed to regulate the management and operation of Beauty University Management Limited;
- (d) the subscription agreement dated 14 March 2014 entered into between the Company as issuer and Dr. Cheung Yuk Shan, Shirley and Biochem Investments Limited as subscribers whereby the Company agreed to issue, and Dr. Cheung Yuk Shan, Shirley and Biochem Investments Limited agreed to subscribe, 49,658,750 Shares at the price of HK\$0.45 per subscription share; and
- (e) the Underwriting Agreement.

12. PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY**(a) Names and addresses**

Name	Address
<i>Executive Directors</i>	
Dr. Cheung Yuk Shan, Shirley	4th Floor, Sands Building 17 Hankow Road Tsim Sha Tsui, Kowloon Hong Kong
Mr. Cheung Ka Heng, Frankie	4th Floor, Sands Building 17 Hankow Road Tsim Sha Tsui, Kowloon Hong Kong
<i>Independent Non-Executive Directors</i>	
Mr. Hong Po Kui, Martin	4th Floor, Sands Building 17 Hankow Road Tsim Sha Tsui, Kowloon Hong Kong
Mr. Li Kuo Hsing	4th Floor, Sands Building 17 Hankow Road Tsim Sha Tsui, Kowloon Hong Kong
Ms. Hui Yat Lam	4th Floor, Sands Building 17 Hankow Road Tsim Sha Tsui, Kowloon Hong Kong
Cavaliere Ms. Chiu Kam Hing Kathy, JP	4th Floor, Sands Building 17 Hankow Road Tsim Sha Tsui, Kowloon Hong Kong

Senior Management

Mr. Tse Ching Leung
4th Floor, Sands Building
17 Hankow Road
Tsim Sha Tsui, Kowloon
Hong Kong

(b) Brief biographical details*Executive Directors*

Dr. CHEUNG Yuk Shan, Shirley, aged 39, is the Chairman of the Board, the Chief Executive Officer and an Executive Director of the Company. She is also the chairman of the Company's nomination committee. Dr. Cheung holds directorships in various subsidiaries of the Company. Dr. Cheung has over 16 years' expertise in beauty and slimming industry and she founded the Group in 2000. Dr. Cheung holds an honorary doctorate degree from Armstrong University, U.S.A. and an Executive Master degree of Business Administration from Peking University. Dr. Cheung is responsible for the overall stewardship of the Group which includes directions and formulating strategies. Dr. Cheung is the younger sister of Mr. Cheung Ka Heng, Frankie, an Executive Director of the Company.

Dr. Cheung is an Honorary President of the Federation of Beauty Industry (H.K.) and she has been appointed as a member of the Beauty Industry Training Advisory Committee of Education Bureau – Qualifications Framework in 2006. Dr. Cheung was awarded as one of the “100 Outstanding Women Entrepreneurs in China” by the “Women Entrepreneurs' Association of China” in 2004. She was awarded as one of the “World Outstanding Chinese” in 2006.

Mr. CHEUNG Ka Heng, Frankie, aged 41, is an Executive Director. He is responsible for the business development and administration of the Group. He is also a member of the Company's nomination committee. Mr. Cheung holds directorships in various subsidiaries of the Company. 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. Mr. Cheung was previously an executive director of Chevalier Pacific Holdings Limited, a company listed on the Main Board of the Stock Exchange. Mr. Cheung is the elder brother of Dr. Cheung.

Independent Non-Executive Directors

Mr. HONG Po Kui, Martin (“Mr. Hong”), aged 64, is an Independent Non-Executive Director and joined the Group in June 2002. He is responsible for giving advices to the board of Directors and shareholders of the Company. He is also the chairman of the Company’s audit committee, a member of the Company’s remuneration committee and nomination committee. Mr. Hong is a practicing solicitor and a notary public in Hong Kong. He has been practicing as a solicitor of the High Court of Hong Kong for over 35 years and is the senior partner of Messrs Lau, Chan & Ko, Solicitors. He holds a bachelor degree in science from University of New South Wales. Mr. Hong is an independent non-executive director of Modern Beauty Salon Holdings Limited, a company listed on the Main Board of the Stock Exchange.

Mr. LI Kuo Hsing (“Mr. Li”), aged 55, is an Independent Non-Executive Director and joined the Group in June 2002. He is also the chairman of the Company’s remuneration committee, a member of the Company’s audit committee and nomination committee. Mr. Li is the Vice Chairman of the Federation of Motion Film Producers of Hong Kong Limited since 1998 and appointed Member of the Election Committee for the Performing Arts sub-sector of the Legislative Council Election. Mr. Li is the founder and chairman of Mei Ah Entertainment Group Limited, a company listed on the Main Board of the Stock Exchange.

Ms. HUI Yat Lam (“Ms. Hui”), aged 40, is an Independent Non-Executive Director and joined the Group in March 2008. She is also a member of the Company’s audit committee, remuneration committee and nomination committee. Ms. Hui is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation of Institute of Hong Kong. Ms. Hui has over 19 years of experience in professional auditing, accounting and financial management related experience from international accounting firm and listed group.

Cavaliere Ms. CHIU Kam Hing Kathy, JP (“Ms. Chiu”), aged 65, joined the Group in October 2013 as an Independent Non-Executive Director, and also as a member of the audit committee, the remuneration committee and the nomination committee of the Company. Ms. Chiu has over 29 years of banking experience in Canada and the Asia Pacific Region. She was Senior Vice President at the Republic National Bank of New York for almost thirteen years and was responsible for the management and investment of third party client’s funds. Ms. Chiu is an associate and a fellow of the Institute of Canadian Bankers. Ms. Chiu was appointed as a Justice of the Peace by the Hong Kong Government in 1992 and as Cavaliere by the Italian Government in 1999 and she is Montblanc Outstanding Business Lady of the year 2002 in Hong Kong. Ms. Chiu is Chairman of Prime Investments Group Limited and also an independent non-executive director of National Agricultural Holdings Limited (formerly known as “Qianlong Technology International Holdings Limited”), a company listed on the Main Board of the Stock Exchange. Ms. Chiu is licensed to carry out asset management business under Type 9 regulated activity under the SFO. Ms. Chiu was previously the independent non-executive director of Asia Coal Limited, a company listed on the Main Board of the Stock Exchange.

Senior Management

Mr. TSE Ching Leung (“Mr. Tse”), aged 41, is the Financial Controller, Qualified Accountant and Company Secretary of the Group. Mr. Tse is responsible for overseeing the accounting and financial management and company secretarial functions of the Group. He is an associate member of Hong Kong Institute of Certified Public Accountants. Mr. Tse joined the Group in February 2008 and has accumulated over 19 years of accounting and auditing experience.

13. CORPORATE INFORMATION AND PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered office	Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands
Head office and principal place of business of the Company in Hong Kong	4th Floor, Sands Building, 17 Hankow Road, Tsim Sha Tsui, Kowloon, Hong Kong
Company secretary	Mr. TSE Ching Leung (<i>an associate member of Hong Kong Institute of Certified Public Accountants</i>)
Compliance officer	Dr. CHEUNG Yuk Shan, Shirley
Authorised representatives	Dr. CHEUNG Yuk Shan, Shirley Mr. CHEUNG Ka Heng, Frankie
Auditor	Baker Tilly Hong Kong Limited 2nd Floor, 625 King's Road, North Point, Hong Kong
Principal share registrar and transfer office in the Cayman Islands	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands

Hong Kong branch share registrar and transfer office	Tricor Standard Limited Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
Principal bankers	Nanyang Commercial Bank Yaumatei Branch, 309 Nathan Road, Kowloon The Bank of East Asia Limited iSQUARE Branch, Shop UG01, iSQUARE, 63 Nathan Road, Tsim Sha Tsui, Kowloon
Underwriter	Get Nice Securities Limited 10/F., Cosco Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong
Financial adviser to the Company	Fortune Financial Capital Limited 35/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	Fulbright Capital Limited Room 2602, 26/F., LHT Tower, 31 Queen's Road Central, Hong Kong

**Legal advisers to the Company
in relation to the Rights Issue** *As to Hong Kong law*

Iu, Lai & Li
Rooms 2201, 2201A & 2202, 22nd Floor,
Tower I, Admiralty Centre,
No. 18 Harcourt Road,
Hong Kong

As to Cayman Islands law

Conyers Dill & Pearman (Cayman) Limited
Cricket Square,
P.O. Box 2681,
Grand Cayman,
KY1-1111,
Cayman Islands

14. EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission, financial advisory fees, printing, registration, legal and accounting fees, are estimated to be approximately HK\$5,000,000 (assuming no issue of new Shares, no exercise of the Outstanding Options and the Existing Convertible Notes and no repurchase of Shares on or before the Record Date) and will be payable by the Company.

15. GENERAL

- (a) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text in case of inconsistencies.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 4th Floor, Sands Building, 17 Hankow Road, Tsimshatsui, Kowloon, Hong Kong during normal business hours on any business day from, the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2013 and 2014;
- (c) a letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 38 of this circular;
- (d) a letter from Fulbright Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 39 to 67 of this circular;
- (e) the letter on the unaudited pro-forma financial information of the Group issued by Baker Tilly Hong Kong Limited, the text of which is set out in Appendix II to this Circular;
- (f) the written consent from the experts referred to in the paragraph headed “Expert and consent” in this appendix;
- (g) the material contracts referred to under the section headed “Material Contracts” in this appendix; and
- (h) this circular.

NOTICE OF EGM



SAU SAN TONG HOLDINGS LIMITED

修身堂控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8200)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Sau San Tong Holdings Limited (the “Company”) will be held at 4th Floor, Sands Building, 17 Hankow Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, 21 August 2014 at 12:00 noon for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTION

1. “**THAT** the authorised share capital of the Company be increased from HK\$10,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.01 each (“**Share(s)**”) to HK\$20,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,000,000,000 new Shares (the “**Increase in Authorised Share Capital**”); and any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Increase in Authorised Share Capital.”

2. “**THAT** conditional upon resolution 1 as set out in this notice being approved and implemented and subject to the fulfilment or waiver (as applicable) of the conditions set out in the underwriting agreement dated 10 July 2014 (the “**Underwriting Agreement**”) in respect of the Rights Issue (as defined below) and entered into between the Company and Get Nice Securities Limited (the “**Underwriter**”) (a copy of which has been produced to the Meeting marked “A” and signed by the Chairman of the Meeting for the purpose of identification):
 - (a) the Underwriting Agreement and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified;

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- (b) the allotment and issue by way of rights (the “**Rights Issue**”) of not less than 893,857,500 and not more than 1,171,771,134 new Shares (the “**Rights Shares**”) at the subscription price of HK\$0.10 per Rights Share to the holders of Shares (the “**Shareholders**”) on the basis of three (3) Rights Shares for every one (1) Share in issue and held by the Shareholders whose names appear on the register of members of the Company on Tuesday, 2 September 2014 (or such later date as the Company and the Underwriter may agree) (the “**Record Date**”) and substantially on the terms and conditions as set out in the circular of the Company dated 6 August 2014 of which the notice convening this Meeting forms part and subject to such other terms and conditions as may be determined by the directors of the Company, be and is hereby approved, confirmed and ratified;
- (c) the directors of the Company be and are hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing shareholdings of the Shareholders and, in particular, the directors of the Company may make such exclusions or other arrangements in relation to Shareholders whose addresses as of the Record Date are outside of Hong Kong as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong, and to do all such acts and things as they consider necessary, desirable or expedient to give effect to any or all other transactions contemplated in this resolution; and
- (d) any one of the directors of the Company be and is/are hereby authorised to do all acts and things and execute all documents for the purpose of, or in connection with, the allotment and issue of the Rights Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company’s rights under the Underwriting Agreement and to make and agree such variations of the terms of the Underwriting Agreement as he/she/they may in their discretion consider to be appropriate and in the interests of the Company.”

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

Hong Kong, 6 August 2014

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Registered office:

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

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

4th Floor, Sands Building
17 Hankow Road
Tsimshatsui, Kowloon
Hong Kong

Notes:

1. Subject to the provisions of the Articles of Association of the Company, any member of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A member of the Company who is the holder of two or more Shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at the EGM. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which each such proxy is so appointed. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. On a poll, votes may be given either in person or by proxy. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation shall be entitled to exercise the same powers on behalf of the member of the Company which he/she/it or they represent as such member of the Company could exercise.
2. Where there are joint holders of Shares, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such Share as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the EGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. The form of proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of a form of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such form of proxy on behalf of the corporation without further evidence of the facts.
4. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 6 August 2014. Such form of proxy is also published on the GEM website at www.hkgem.com and the Company's website at www.sausantong.com. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and return, together with the power of attorney or other authority (if any) under which it is signed, (or a copy which has been certified by a notary) to the Hong Kong branch share registrar and transfer office of the Company, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than forty-eight (48) hours before the time appointed for holding the EGM or adjourned meeting at which the person named in the form proposes to vote.
5. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the EGM and in such event, the form of proxy shall be deemed to be revoked.