

INDUSTRY OVERVIEW

This section contains information and statistics relating to the industries in which the Group operates, and other related industry sectors. Information included in this section is derived in part from various government official sources. The Company, the Directors and the Sponsor have taken reasonable care in the reproduction of such government official information. None of the Company, the Directors, the Sponsor, the Lead Manager, the Underwriters or any of their respective advisers have prepared or independently verified such government official information. Such government official information may not be consistent with other unofficial information available and may not be accurate and should not be unduly relied upon.

HONG KONG AND THE PRC

Economic overview

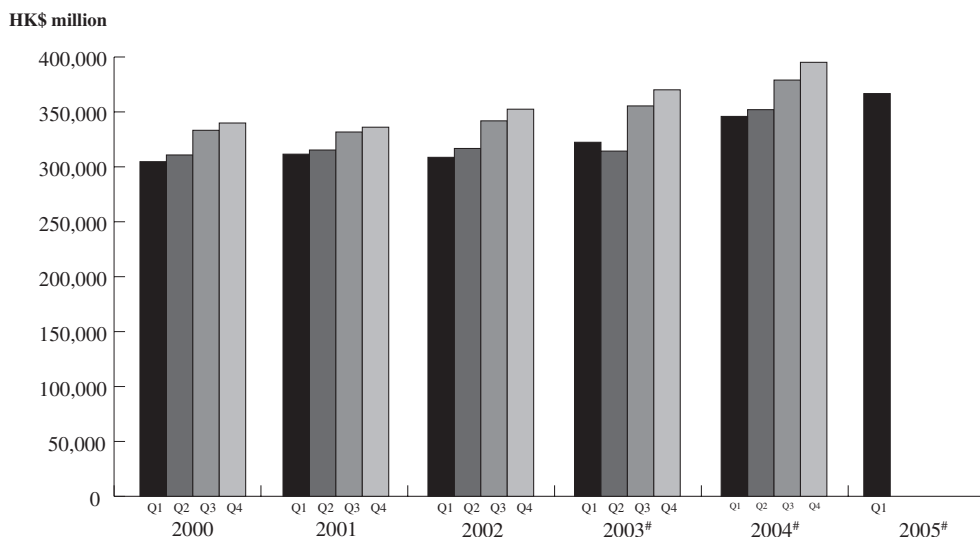
The beauty industry in Hong Kong is in some ways affected by the general economic conditions. Set out below are statistics of GDP, private consumption expenditure and mean income of Hong Kong's population over the past few years.

GDP

Over the past few years, the economy in Hong Kong has generally improved at a steady pace. GDP (at constant (2000) market price) in Hong Kong has grown from approximately HK\$1,288,338 million in 2000 to approximately HK\$1,471,765 million in 2004 (subject to revision), representing a compound annual growth rate of approximately 3.4%.

The living standard in Hong Kong has also generally improved in the last few years. The per capita GDP (at constant (2000) market price) in Hong Kong has increased from HK\$193,299 in 2000 to HK\$213,839 in 2004 (subject to revision), representing a compound annual growth rate of approximately 2.6%.

GDP (at constant (2000) market price) of Hong Kong from 2000 to 2005 (first quarter)

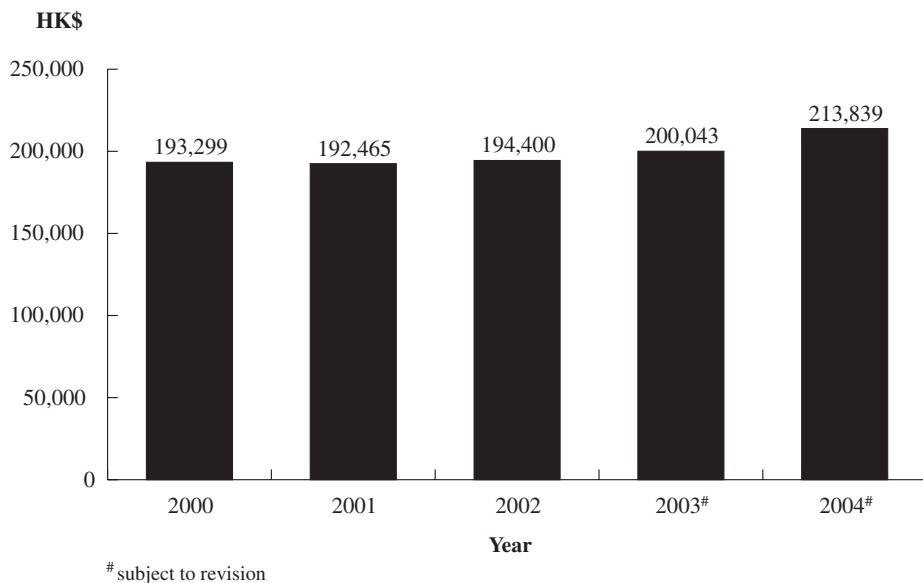


[#] subject to revision

Source: Census and Statistics Department of Hong Kong, 2005

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Per capita GDP (at constant (2000) market price) in Hong Kong from 2000 to 2004

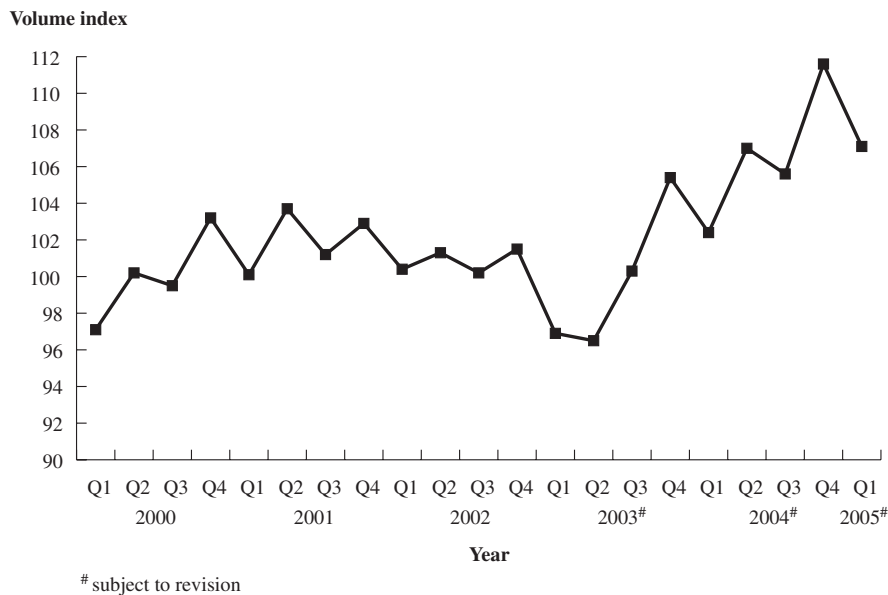


Source: Census and Statistics Department of Hong Kong, 2005

Private consumption expenditure

Private consumption expenditure in Hong Kong shows a stable trend in the last few years, except for 2004. In 2003, volume index of private expenditure in Hong Kong was 99.8 (assuming the basis point in 2000 being 100). The index increased to 106.7 (assuming the basis point in 2000 being 100) in 2004, representing a growth rate of approximately 6.9% from 2003. The diagram below illustrates the volume index of private consumption expenditure in Hong Kong from 2000 to 2005 (1st Quarter).

Volume index of private consumption expenditure (assuming the basis point in 2000 being 100)



Source: Census and Statistics Department of Hong Kong, 2005

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Employed females by monthly employment earnings (Hong Kong)

The total number of employed females in Hong Kong was approximately 1.35 million in 2000. It increased to approximately 1.48 million in 2004, representing an increase of approximately 9.6% from 2000. There is also an increasing trend in the number of females earning HK\$30,000 or more per month. In 2000, the number of females earning HK\$30,000 or more per month in Hong Kong was approximately 105,200. It increased to approximately 116,700 in 2004, representing an annual compound growth rate of approximately 2.6%.

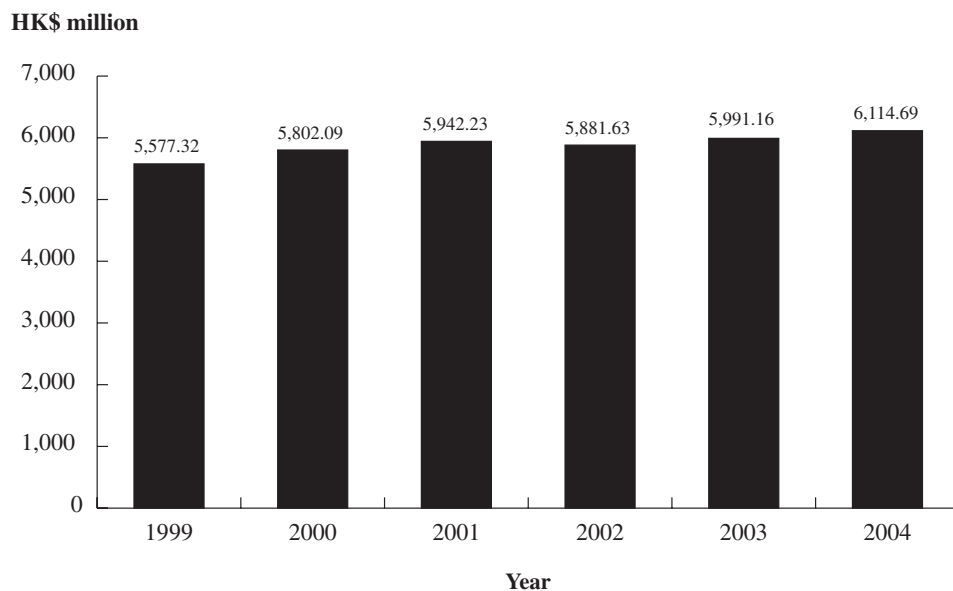
The Directors believe that the trend shows that the number of high-income females is increasing in Hong Kong. This female group tends to look for quality services and products, and is able to afford luxurious beauty and healthcare services and products. The table below sets out the number of employed females in Hong Kong categorised by monthly employment earnings from 2000 to 2004.

Monthly employment earnings of employed females (HK\$)	Thousand of people				
	2000	2001	2002	2003	2004
	<i>(Approximately)</i>				
6,000 - 6,999	100.7	104.1	108.8	107.0	110.8
7,000 - 7,999	92.2	86.5	89.3	91.7	98.4
8,000 - 8,999	106.4	100.9	95.8	93.1	97.3
9,000 - 9,999	68.6	66.4	63.8	66.0	72.0
10,000 - 14,999	255.6	255.1	239.5	218.4	219.3
15,000 - 19,999	116.5	122.9	121.8	118.1	119.9
20,000 - 29,999	129.3	136.8	132.3	127.5	123.4
≥30,000	105.2	112.9	114.6	112.3	116.7
Total number of employed females	1,352.8	1,405.4	1,431.7	1,439.6	1,478.2

Source: General Household Survey Section (2), Census and Statistics Department of Hong Kong, 2005.

Sales of cosmetics and toiletries in Hong Kong

In 2004, sales of cosmetics and toiletries in Hong Kong amounted to approximately HK\$6,114.69 million, representing an increase of approximately 2.1% from approximately HK\$5,991.16 million in 2003. During the period from 1999 to 2004, sales of cosmetics and toiletries in Hong Kong increased from approximately HK\$5,577.32 million in 1999 to approximately HK\$6,114.69 million in 2004, representing an annual compound growth of approximately 1.9% during the period. The chart below set out the sales of cosmetic and toiletries in Hong Kong during 1999 to 2004:

Sales of cosmetics and toiletries in Hong Kong (1999 to 2004)

Source: Euromonitor 2005

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Retail sales of facial care products is forecasted to increase by approximately 9.9% from 2003 to 2008, representing a compound annual growth rate of approximately 1.9%. Retail sales of body care products is forecasted to increase by 12.6% for the same period, representing a compound annual growth rate of 2.4%. Retail sale of hand care products is forecasted to increase by 10.9% for the same period, representing a compound annual growth rate of 2.1%. Retail sales of skincare products is forecasted to increase by 10.2% for the same period, representing a compound annual growth rate of 2.0%.

Forecast retail sales of beauty products by sub-sectors: Percentage of value growth 2003-2008

	2003-08 Compound annual growth rate %	2003-08 Total %
Facial care	1.9	9.9
Facial moisturisers	1.4	7.2
Nourishers/anti-agers	3.3	17.6
Facial cleansers	2.3	12.3
Liquid/cream/gel/bar cleansers	2.3	12.0
Facial cleansing wipes	4.0	21.7
Toners	1.4	7.2
Face masks	2.5	13.1
Lip moisturisers	1.4	7.2
Body care	2.4	12.6
Firming/anti-cellulite body care	2.8	14.8
General purpose body care	2.3	12.0
Hand care	2.1	10.9
Skin care	2.0	10.2

Source: Trade Interviews, Euromonitor estimates 2005

Female population in Hong Kong

The principal target customers of the Group are the female population in Hong Kong. For the age groups of 20-24 years, female population is forecasted to increase from 252,000 in 2005 to 262,000 in 2010, representing a growth of approximately 4%. For the age groups of 25-29 years, female population is forecasted to increase from 276,000 in 2005 to 284,000 in 2010, representing a growth of approximately 3%.

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As shown in the table below, female population in Hong Kong in different age group is forecasted to increase during the period from 2005 to 2010, except for the age groups of 30-34 years and 40-44 years, which are forecasted to decrease by 3% and 4% respectively during the period from 2005 to 2010.

Female population in Hong Kong by age distribution

Age group	2000 '000	2005 '000	2010 '000	2015 '000
15-19 years	223	221	238	217
20-24 years	242	252	262	284
25-29 years	291	276	284	292
30-34 years	322	337	326	330
35-39 years	367	359	368	351
40-44 years	332	384	370	375
45-49 years	254	331	382	365
50-54 years	191	255	328	376

Source: Euromonitor 2005

Information on beauty/healthcare industry in Hong Kong

Based on the searches conducted by the Company as well as the confirmation obtained from some consultancy and research companies, there is currently no available information or statistics from the government or from other official or reliable sources on the beauty/healthcare industry in Hong Kong, including (i) market size for the beauty/healthcare industry (relating to services rather than sales of products) in Hong Kong in terms of dollar value; (ii) size of the population in Hong Kong that subscribes for beauty/healthcare services regularly; (iii) market share of the Group; and (iv) market position of the Group in terms of sales, customer size or floor space, etc. The Company has considered obtaining the abovementioned information by engaging consultancy and research companies to conduct research and obtain results through sampling, estimation and projection. However, as advised by the consultancy and research companies, the research results is susceptible to errors with high error rate, which would render the results inaccurate and unreliable. As a result, the Directors are of the view that additional information obtained through research may not be able to truly and accurately reflect the beauty/healthcare service industry in Hong Kong. On this basis, the Directors confirm that this prospectus has provided relevant information to investors in relation to the beauty/healthcare industry and is not misleading.

Regulatory framework and licenses

Hong Kong

There is at present no specific legislation governing the operation of beauty and fitness centres in respect of the Group's business in Hong Kong, including qualification of the employed personnel or devices used. At present, there is also no specific legislation regulating the import or sale of medical devices in Hong Kong except for those containing pharmaceutical products or radioactive substances. The Group is not engaged in the import or sales of medical devices containing pharmaceutical products or radioactive substances.

However, the operations of the Group in Hong Kong are subject to general rules and regulations, including building, health and safety laws.

The Hong Kong Consumer Council protects the rights of consumers. Consumers have a right to dispute the price or quality of service if they find it unsatisfactory. The Council also assists consumers in cases of false claims made by companies with respect to a specific service offered by them.

The PRC

In the PRC, the operation of beauty and fitness centres is subject to regulation from the Central Government in Beijing, which is often carried out at local levels. There is a consumer council in the PRC which is now expanded to most urban areas and whose role is to protect consumers and enforce consumer rights in cases of dispute regarding quality of the product or service or misleading claims. The consumer council holds considerable power in the PRC and can impose large fines upon a company it finds in violation of consumer laws. The consumer council would often publish a statement against a fined company in a local newspaper.

The Board of Health has strict regulations regarding spa facilities and fitness/beauty equipment that is used by many people per day. The Board requires an initial license before opening of the facilities and requires installation of certain anti-bacterial and hygiene equipment. For example, the beauty treatment area is required to have ultra-violet ("UV") disinfection lamps installed within every 5 feet of public space. The law also requires UV disinfection every night for the air, beds and chairs in the area. The Board also requires "hot cabinet" disinfection units for small beauty tools and equipment.

There is a council for fair pricing in the PRC, and every business that sells products or provides services must register their fees with this department. The council has a right to dispute fees if it deems them unreasonable.

Competition

The Directors believe that the beauty and healthcare service industry is highly competitive in Hong Kong with the presence of a large number of beauty service providers in the market. The Directors believe that the existing beauty service providers can be broadly divided into the following two categories according to their sectors of target customers:

1. **Medium to large-scale beauty service providers**

This category of beauty service providers generally has more than four beauty centres in Hong Kong which are located in commercial areas (e.g. Central, Causeway Bay, Wanchai, Tsimshatsui and Mongkok). Their target customers usually come from medium to high-income groups including office ladies and females from upper-class society. The Directors consider that this category of beauty service providers are the Group's principal competitors since the Group's target customers also come from the medium to high-income sectors.

2. **Domestic beauty salons**

This category of beauty service providers mainly include those small-scale beauty salons run by sole proprietors in shopping centres and housing estates with high residential population. Their target customers are usually the flat-dwellers residing nearby. There is a large number of small-scale domestic beauty salons in Hong Kong as initial setting-up investment is relatively low. Since the mode of operations of these beauty salons is different from that of the Group in terms of the variety of beauty services and target customers, the Directors do not consider that this category of beauty service providers are key competitors of the Group.

Key barriers of entry to the industry

The key barriers of entry to become a large scale beauty service provider offering comprehensive beauty and healthcare services include the followings:

- (i) considerable amount of capital for purchase of beauty equipment, leasing and decoration of service centres, working capital and advertising expenses to create public awareness;
- (ii) recruitment and training of professional frontline beauty staff to deliver and maintain high quality service;
- (iii) experienced management team and development of systematic procedures and approach for day-to-day operations;
- (iv) development of management information system to facilitate large scale operations; and
- (v) building up of comprehensive range of services within a short period of time.