

# Bio Beauty Group Ltd. 真優美集團有限公司

(Incorporated in the Cayman Islands with limited liability)

## GLOBAL OFFERING

*MB*  
Marjorie  
Bertagne

*Sole Global Coordinator and Sole Bookrunner*



MACQUARIE

**Macquarie Securities Limited**

*Joint Sponsors and Joint Lead Managers*



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## IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

# BIO BEAUTY GROUP LTD.

真優美集團有限公司

(incorporated in the Cayman Islands with limited liability)

## GLOBAL OFFERING

**Number of Offer Shares under the Global Offering :** 390,000,000 Shares (comprising 325,000,000 new Shares to be offered by us and 65,000,000 Sale Shares to be offered by the Selling Shareholders, subject to adjustment and the Over-allotment Option)

**Number of Public Offer Shares :** 39,000,000 Shares (subject to adjustment)

**Number of International Offer Shares :** 351,000,000 Shares comprising 286,000,000 new Shares to be offered by us and 65,000,000 Sale Shares to be offered by the Selling Shareholders

**Maximum Offer Price :** not more than HK\$6.18 per Offer Share payable in full on application subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%

**Nominal value :** HK\$0.10 per Share

**Stock code :** 3332

*Sole Global Coordinator and Sole Bookrunner*



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**ICEA**

A subsidiary of ICBC

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

A copy of this prospectus, having attached thereto the documents specified in Appendix VII — “Documents Delivered to the Registrar of Companies and Available for Inspection”, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission, The Stock Exchange of Hong Kong Limited and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement among the Global Coordinator (on behalf of the Underwriters), and us (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be at or around 12:00 noon, 7 December 2007 (or such later time as may be agreed by the Company and the Global Coordinator) and, in any event, not later than 7:00 p.m., 7 December 2007. The Offer Price will be not more than HK\$6.18 per Offer Share and is currently expected to be not less than HK\$4.88 per Offer Share. Applicants for Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$6.18 for each Public Offer Share together with 1% brokerage, 0.005% Stock Exchange trading fee and 0.004% SFC transaction levy, subject to refund if the Offer Price as finally determined is less than HK\$6.18 per Offer Share.

The Global Coordinator (on behalf of the Underwriters) may, with our (for ourselves and on behalf of the Selling Shareholders) consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the last day for lodging applications under the Public Offer, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in “Structure of the Global Offering” and “How to Apply for Public Offer Shares and Reserved Shares”. If, for any reason, we, and the Global Coordinator (on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by 7:00 p.m., 7 December 2007, the Global Offering (including the Public Offer) will not proceed and will lapse.

Prospective investors should read the entire document carefully and, in particular, should consider the matters discussed in the section headed “Risk Factors” in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise at or prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed “Underwriting — Underwriting Arrangements and Expenses — Grounds for Termination” in this prospectus.

The Offer Shares have not been registered under the U.S. Securities Act and may be offered or sold, pledged or transferred only (i) in the United States to QIBs, in reliance on Rule 144A under the U.S. Securities Act and (ii) outside the United States in reliance on Regulation S under the U.S. Securities Act.

4 December 2007

## EXPECTED TIMETABLE

Latest time to lodge <b>PINK</b> Application Forms . . . . .	4:00 p.m. on 6 December 2007
Application lists open <sup>(2)</sup> . . . . .	11:45 a.m. on 7 December 2007
Latest time to lodge <b>WHITE, YELLOW</b> and <b>BLUE</b> Application Forms . . . . .	12:00 noon on 7 December 2007
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(3)</sup> . . . . .	12:00 noon on 7 December 2007
Application lists close . . . . .	12:00 noon on 7 December 2007
Expected Price Determination Date . . . . .	7 December 2007
Announcement of the Offer Price, the level of indication of interest in the International Offer and basis of allocation of the Public Offer Shares and the Reserved Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on . . . . .	13 December 2007
Results of allocations in the Public Offer (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see paragraph headed "8. Results of Allocations" in the section headed "How to Apply for Public Offer Shares and Reserved Shares") from . . . . .	13 December 2007
Despatch of Share certificates in respect of wholly or partially successful applications on <sup>(4)</sup> . . . . .	13 December 2007
Despatch of refund cheques in respect of wholly or partially unsuccessful applications on <sup>(4)(5)</sup> . . . . .	13 December 2007
Dealings in Shares on the Stock Exchange expected to commence at <sup>(6)</sup> . . . . .	9:30 a.m. on 14 December 2007

*Notes:*

- (1) All times refer to Hong Kong local time.
- (2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 7 December 2007, the application lists will not open on that day. Please refer to the section headed "How to Apply for Public Offer Shares and Reserved Shares — Effect of bad weather conditions on the opening of the application lists" in this prospectus.

## EXPECTED TIMETABLE

- (3) Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for Public Offer Shares and Reserved Shares — How to apply by giving electronic application instructions to HKSCC” in this prospectus.
- (4) Applicants who applied for 1,000,000 or more Public Offer Shares and have indicated in their Application Forms their wish to collect refund cheques (where applicable) and Share certificates (where applicable) in person may do so from our Hong Kong share registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of Share certificates and refund cheques. The date of despatch of Share certificates and refund cheques is expected to be 13 December 2007. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives, each bearing a letter of authorisation from his corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong share registrar. Uncollected refund cheques and Share certificates will be despatched by ordinary post to the addresses as specified in the applicants’ Application Forms shortly after the time specified for the collection on the date of despatch at the applicants’ own risk.
- (5) Refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications in the event that the Offer Price as finally determined is less than the Offer Price per Offer Share initially paid on application.
- (6) Share certificates will only become valid certificates of title if the Global Offering becomes unconditional and neither of the Underwriting Agreements is terminated in accordance with its terms at or before 8:00 a.m. on the Listing Date, which is expected to be 14 December 2007. No dealing should take place in the Offer Shares prior to commencement of dealing in the Shares on the Stock Exchange. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

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**You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Selling Shareholders, the Global Coordinator, the Joint Sponsors, any of the Underwriters, any of their respective directors, officers or representatives, or any other person or party involved in the Global Offering.**

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## SUMMARY

**This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in the Shares. There are risks associated with any investment. Some of the particular risks in investing in the Shares are set out in “Risk Factors”. You should read that section carefully before you decide to invest in our Shares.**

### OVERVIEW

We are one of the leading branded skincare products and colour cosmetics enterprises in the PRC where we market under the “Marjorie Bertagne” (MB) brand name. We are principally engaged in the research, development, manufacture and sale of skincare products and colour cosmetics. We sell our “Marjorie Bertagne” (MB) products to our distributors who are responsible for distributing our products in the PRC, Hong Kong and Macau through a sales network of approximately 1,252 points of sales. We have developed and promoted our “Marjorie Bertagne” (MB) brand name through a variety of marketing and promotional strategies, such as the promotion of celebrities as our spokespersons, sponsorship of television programmes and advertising campaigns including product launches, press conferences, television commercials, billboard posters, newspapers and magazines.

We are one of the few producers in the PRC who can produce hEGF and employ it in our own skincare products. hEGF has proven effective in encouraging human skin growth. Our Directors believe that there are three producers currently in the PRC market other than our Group which produce skincare products that contain hEGF. Based on a number of scientific studies such as a report published in *Biotechnology & Genetic Engineering Reviews* entitled “Applications, and Efficient Large-Scale Production, of Recombinant Human Epidermal Growth Factor” published in July 2001, it was noted that skincare products with hEGF ingredients have the effect of improving human skin cell growth and retarding the skin aging process.

The “Marjorie Bertagne” (MB) brand has two separate lines of skincare products which are targeted at retail and professional markets. The retail line includes our skincare products and targets customers who buy our products in retail outlets such as dedicated counters at department stores, cosmetics shops and specialty stores. This line of products is not used under the direction of professional skincare consultants. We launched our professional line of skincare products to the health and beauty salons in March 2005. The professional line also includes our skincare products but targets customers who seek customised skincare treatment services in health and beauty salons. This line of products is normally used under the direction of professional skincare consultants in health and beauty salons which provide customised skincare treatments, such as facial and body treatments. The professional line of products is specifically designed to be used in the health and beauty salons. As advised by our PRC legal advisers, Guangdong Harbour Law Firm, our Directors confirm that the professional skincare consultants are generally not required to obtain any licences and permits in order to provide customised skincare treatments to customers. As advised by our legal advisers as to Hong Kong laws, the professional skincare consultants who provide customised skincare treatments to customers at the health and beauty sales are generally not required to obtain any licenses and permits under the laws of Hong Kong. As the professional skincare consultants are employees of the distributors who run the health and beauty salons, any liability arising out of the skincare treatments undertaken by the professional skincare consultants will be borne by such distributors.

We do not sell our “Marjorie Bertagne” (MB) products directly to consumers but rely on our distributors to distribute our products in the PRC, Hong Kong and Macau through a sales network of approximately 1,252 points of sales. These points of sales are segmented into five channels: (i) brand image stores, (ii) dedicated counters in department stores, (iii) cosmetics shops, (iv) specialty stores, and

## SUMMARY

(v) health and beauty salons. As at 30 September 2007, our “Marjorie Bertagne” (MB) products were sold at 208 dedicated counters, five brand image stores, 369 cosmetics shops, 69 specialty shops and 601 health and beauty salons. We sold our “Marjorie Bertagne” (MB) products through five distributors in 2004 and 2005, and 16 distributors in 2006. For our “Marjorie Bertagne” (MB) products, all our sales are made directly to our distributors and we do not have any wholesale operations. Our retail operations are run by our distributors under our supervision. We have an understanding on the inventory management of our distributors and points of sales (namely dedicated counters in department stores, brand image stores, cosmetics shops, specialty stores and health and beauty salons) through frequent communication with our distributors and visits some of the points of sales by our sales and marketing team.

We have invested in dedicated counters in the department stores and brand image stores which sell our “Marjorie Bertagne” (MB) products and provide health and beauty services using our “Marjorie Bertagne” (MB) products by paying for the design and set up costs. Such dedicated counters and brand image stores are not operated by our Group. Under the distribution agreements with our distributors, we retain a degree of control over the dedicated counters and brand image stores and we manage our distributors and the dedicated counters and brand image stores operated by these distributors through various measures, including:

- (a) *Retail pricing.* We adopt a unified retail pricing policy in the PRC, Hong Kong and Macau with discounts offered to our distributors based on the retail prices set by us. No profit sharing arrangements have been made between us and our distributors.
- (b) *Brand image at retail outlets.* We aim to create a unique image for retail outlets, namely dedicated counters and brand image stores through the use of unified decoration and designs distinctive to our products and brand portfolio.
- (c) *Dedicated counters and brand image stores location.* We seek to ensure that there is no over-concentration of dedicated counters and brand image stores within any designated area which may cause material competition among these counters and stores. Any expansion plan such as new store openings and the location of dedicated counters or brand image stores operated by our distributors must be approved by us prior to implementation. We are not aware of any saturation of our products sold in a particular area or region. We also retain control over the closing of existing dedicated counters or brand image stores, even though we do not own such counters and stores.

Apart from dedicated counters and brand image stores, points of sales such as cosmetics shops, specialty shops and health and beauty salons are owned by distributors selling our “Marjorie Bertagne” (MB) products and also skincare products and colour cosmetics of other brands. We have no control over such points of sales.

Our business model is common in the skincare products and colour cosmetics industry in the PRC and has enabled us to achieve growth in sales by leveraging economies of scale from our distribution arrangements. Our sales are made on an outright and non-recourse basis. We pass the title of our products to our distributors when they are delivered to the points of sales.



## SUMMARY

We possess GMPC qualified production facilities which not only surpass the corresponding PRC standards but also meet with the standards of the European Union and the United States. We have accumulated significant experience in the production of skincare products and colour cosmetics for the medium to high-end market and mass markets since commencing our skincare products and colour cosmetics business in 2002.

As at the Latest Practicable Date, we had developed over 120 skincare products and 10 colour cosmetics under the brand name of “Marjorie Bertagne” (MB). The brand name of “Marjorie Bertagne” (MB) was permanently assigned to Global Chemicals (China), a member of the Parent Group, by our French OEM manufacturer, Cosme-Tech in May 2001, and subsequently transferred to us in 2007. For further details of our intellectual property rights, please refer to the sections headed “Business — Intellectual Property Rights” and “History and Reorganisation” in this prospectus. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, our sales of “Marjorie Bertagne” (MB) brand products accounted for approximately 100.0%, 97.6%, 87.6% and 95.1%, respectively, of our total turnover.

As at the Latest Practicable Date, all of our “Marjorie Bertagne” (MB) skincare products contained hEGF. Save for our “Marjorie Bertagne” (MB) skincare products, we do not use hEGF in any of our other products. We also develop and produce colour cosmetics and personal care products which do not contain hEGF through our in-house product design and development team. These products include toiletries and colour cosmetics under our own private brand names “Face” and “Envita” which are or will be distributed through international retail outlets. We commenced sales under the brand name of “Face” in September 2007 and we plan to commence sales under the brand name of “Envita” in the first half of 2008.

We also plan to sell toiletries, skincare products and colour cosmetics under the brand name of “MB2” which will be launched and sold in hypermarkets and cosmetics shops in the PRC in the second half of 2008. As at the Latest Practicable Date, none of the products developed and produced by us under our own private brand names contain hEGF. We plan to seek qualified professionals to offer advice and audit our products under the brand names of “Face” and “Envita” so as to ensure that we meet all applicable European laws and regulations in connection with the introduction of such skincare products and colour cosmetics. We will adopt the same approach when introducing our products to the United Kingdom and U.S. markets.

In addition to manufacturing products under our own brand, we are also engaged in the ODM and OEM businesses, under which we design and manufacture skincare products, colour cosmetics and toiletries for our ODM and OEM customers in Europe and the United States. In 2005, we had spare production capacity and gained the ODM and OEM qualification of our ODM and OEM customers. We commenced our ODM and OEM business in June 2005. The products designed and produced by us under our ODM and OEM business do not contain hEGF. As part of our ODM and OEM businesses, our customers are served by our own research and development and sourcing teams of technical experts and experienced merchandisers to enable our customers to enjoy our “One-Stop Service” in terms of research, development and production for high quality products at competitive prices. Our ODM and OEM customers are mainly international chain stores and pharmacists such as Next. For the two years ended 31 December 2006 and the six months ended 30 June 2007, our top five ODM and OEM customers accounted for approximately 99.6%, 98.3% and 99.3%, respectively, of our ODM and OEM turnover.

## SUMMARY

Our product design and development team is highly experienced in developing designs to meet customers' needs and preferences. Our product design team members have average working experience of approximately 5.3 years engaging in the design of colour cosmetics and toiletries gift items for overseas retail networks such as Next.

### COMPETITIVE STRENGTHS

We believe that our primary competitive strengths are:

- Unique brand positioning and wide recognition of the “Marjorie Bertagne” (MB) brand name in our target markets
- Comprehensive range of proprietary, self-developed high-quality products
- Strong and effective marketing capabilities
- Extensive distribution channel
- Strategic distribution model and diversified channel mix
- Strong research and product development capability
- Experienced management team
- Established relationships with ODM and OEM customers of leading international chains

Please refer to the section headed “Business — Competitive Strengths” in this prospectus for a detailed description of these strengths.

### BUSINESS STRATEGIES

- Continuing to expand our distribution network and product offerings in the PRC
- Expanding our brand portfolio and product offerings and diversifying our range of brands and products in the PRC and internationally
- Launching advertising and promotional campaigns
- Maintaining our position in the PRC and Hong Kong while expanding overseas market penetration

Please refer to the section headed “Business — Business Strategies” in this prospectus for a detailed description of these strategies.

## SUMMARY

### USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$5.53 per Share, being the mid-point of the proposed Offer Price range of HK\$4.88 to HK\$6.18 per Share, will be approximately HK\$1,670.0 million. We currently intend to use:

- approximately 3.0%, or approximately HK\$50.0 million, to finance construction costs of a new production plant and acquisition of new production equipment. The new production plant will be used for the production of perfume, which is a new product of our Group;
- approximately 5.7%, or approximately HK\$96.3 million, to support our retail network expansion strategy. We intend to increase our market presence in first-tier cities such as Beijing, Shanghai and Guangzhou, as well as second- and third-tier cities by setting up approximately 275 dedicated counters, each with gross floor area of approximately 250 to 350 square feet over the next four years;
- approximately 15.0%, or approximately HK\$250.0 million, to develop and promote our new line of business such as our new “MB2” brand. “MB2” is targeted at the low- to medium-end market segment and are planned to be sold in hypermarkets and cosmetics shops in the PRC;
- approximately 14.4%, or approximately HK\$240.0 million, to invest in our new brand image stores in the PRC. We plan to open approximately 200 brand image stores within the next four years and the gross floor area of each brand image store will be approximately 1,200 square feet. In addition to retail service of our “Marjorie Bertagne” (MB) products, the brand image stores will also provide facial treatment services to customers. Each brand image store will be managed by a store manager, who is our employee. The store manager will be responsible for the running of the store including staff recruitment and training. The store staff will be our distributors’ employees and shall receive their salaries from our distributors;
- approximately 34.5%, or approximately HK\$576.7 million will be spent over the next four years for our marketing and promotional activities, including approximately HK\$35.0 million for production of television advertisement and remuneration of our spokespersons annually in the next four years, approximately HK\$175.0 million for television airtime, approximately HK\$87.0 million for advertisement in printed media, and approximately HK\$174.7 million for other promotional activities such as participating in skincare products and colour cosmetics exhibitions and sponsorship activities, and product roadshows such as product launching press conferences and product presentations to our distributors and potential customers, to enhance the brand awareness of our “Marjorie Bertagne” (MB) products and also our new line of products such as “MB2” products and our “Marjorie Bertagne” (MB) fragrance and men’s products to be launched in the coming years;
- approximately 17.4%, or approximately HK\$290.0 million, to repay the outstanding amount of Bridge Loan owed to DBS Bank (Hong Kong) Limited. The Bridge Loan was obtained by our Group from DBS Bank (Hong Kong) Limited for the repayment of the outstanding amount due to the Parent Group. The handling fee in relation to the Bridge Loan is HK\$300,000 and the interest rate is 2% per annum over HIBOR. The amount was borrowed for 24 days from 21 November 2007; and
- approximately 10.0%, or approximately HK\$167.0 million, for working capital requirements and general corporate purposes.

## SUMMARY

Assuming an Offer Price of HK\$6.18 per Offer Share (being the high-end of the stated range of the Offer Price between HK\$4.88 and HK\$6.18 per Offer Share), the amount of additional net proceeds to be received by the Company are estimated to be approximately HK\$200.0 million, which the Directors intend to apply as additional funding for our Group's retail network expansion strategy, development and promotion of its new line of business such as its new "MB2" brand, investment in its new brand image stores in first-tier cities, marketing and promotional activities and general working capital in the same proportion in the use of proceeds as shown above.

Assuming an Offer Price of HK\$4.88 per Offer Share (being the low-end of the stated range of the Offer Price between HK\$4.88 and HK\$6.18 per Offer Share), the Directors intend that the respective amounts to be applied for each of the above purposes will be proportionately reduced.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

No agreements or undertakings have been signed in relation to the different uses of proceeds from the Global Offering. The net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering after deducting the related expenses, and assuming an Offer Price of HK\$5.53 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$4.88 and HK\$6.18 per Offer Share) and that the Over-allotment Option is not exercised in whole, are estimated to amount to approximately HK\$359.5 million. If the Over-allotment Option is exercised in full, and assuming an Offer Price of HK\$5.53 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$4.88 and HK\$6.18 per Offer Share), the Selling Shareholders will receive additional net proceeds of approximately HK\$323.5 million. We will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the exercise of Over-allotment Option. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering will be for the account of the Selling Shareholders.

### **BASIS OF PRESENTATION**

The three subsidiaries of the Parent Company, namely Dongguan Proamine, Global Chemicals (China) and Dongguan Gao Bao, were engaged in both manufacture and trading of skincare products and colour cosmetics and household and industrial products. Businesses of those subsidiaries other than the Cosmetics Business had not been transferred to our Group and therefore excluded for the purpose of the preparation of the financial information.

The combined income statements and the combined cash flow statements which include the results and cash flows of the companies now comprising our Group and of the Cosmetics Business Branches have been prepared by applying the principles of merger accounting which is consistent with the principle stated in Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the HKICPA, as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation/establishment, where this is a shorter period. The combined balance sheets of our Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 have been prepared to present the assets and liabilities of the companies now comprising our Group and the Cosmetics Business Branches as if the current group structure had been in existence as at that date.

## SUMMARY

The financial information in the section headed “Financial Information” in this prospectus was prepared based on the audited financial statements and management accounts of companies now comprising our Group and financial statements of Cosmetics Business Branches which were prepared based on the items of assets, liabilities, income and expenses that are directly attributable to the Cosmetics Business Branches and can be specifically identified.

The following is the methodology employed in the identification and the inclusion of specific revenue, costs, expenses, assets and liabilities in relation to the Cosmetics Business:

- (i) Sales of skincare products and colour cosmetics were extracted from the sales ledgers by sale of product type. The amounts are reconcilable to the sales ledgers and also the sales accounts in the general ledger of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China).
- (ii) Cost of sales comprises principally three major items, namely raw material costs, direct wages and manufacturing overheads. These costs were attributed to the Cosmetics Business according to the records kept by the respective production lines of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China).
- (iii) Other income is segregated from other amounts according to their distinct nature as related to the Cosmetics Business, which includes principally reversal of provision for inventories, royalty income from distributors and advertising subsidy received from distributors.
- (iv) Selling and distribution expenses include principally salaries of salespersons, sales rebates, delivery charges, advertising expenses, promotion expenses and rental expenses for warehouse and sale offices. These expenses were identified by their connection to the Cosmetics Business.

Salaries of salespersons, advertising expenses, promotion expenses and rental expenses for warehouse and sale offices that were identifiable by reference to the records kept by the sales departments of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China) related to the Cosmetics Business were included.

Certain expenses such as delivery charges were allocated primarily on the percentage of the revenue of the Cosmetics Business to total revenue of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China).

- (v) Building used for our production process was allocated primarily on the percentage of the floor areas of production line occupied by the Cosmetics Business.

Plant and equipment used by the Cosmetics Business were all included.

- (vi) Raw materials specifically purchased for the manufacture of skincare products and colour cosmetics were all included.

The finished goods produced that were identifiable and exclusively related to the Cosmetics Business were all included.

## SUMMARY

- (vii) Trade debtors, bills receivables, deposits, prepayments and other debtors that were identifiable from the debtors sub-ledger and general ledger and exclusively related to the Cosmetics Business were all included.
- (viii) Amounts due from or to group companies that were identifiable and related to the transactions of the Cosmetics Business among the Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China) were included in each branch account which were then eliminated in the combined financial information.
- (ix) All liability items which were identifiable from the creditors sub-ledger and general ledger and related to the Cosmetics Business specifically were included.

Expenses that are relevant to the Branch Cosmetics Business which are impracticable to identify specifically are determined on the following basis:

- (i) administrative expenses were allocated in accordance with headcount percentage.
- (ii) income tax expenses were calculated based on the tax rate of Cosmetics Business Branches as if each were a separate tax reporting entity.

Our Directors believe that the method of allocation of the above items presents a reasonable basis of estimating what the Cosmetics Business' operating results would have been on a stand-alone basis during the Track Record Period.

The Cosmetics Business Branches ceased business in January 2007 and their relevant assets except for the plant and machinery and motor vehicles were retained by fellow subsidiaries of our Group on 1 January 2007. The plant and machinery and motor vehicle were acquired by our Group on 30 September 2007 as part of the Reorganisation. As a result, those assets were treated as our Group's assets throughout the Track Record Period and the sales consideration paid by our Group to the fellow subsidiaries for the acquisition of these assets were treated as distribution to the ultimate holding company. To acquire the plant and machinery and motor vehicle of the Cosmetics Business Branches and for Listing purpose, by an agreement dated 30 September 2007 (and supplemented by an agreement dated 8 October 2007), Global Cosmetics (China) acquired from Dongguan Gao Bao certain plant and machinery and motor vehicle at total cash consideration of approximately RMB29,627,000, which represented all the plant and machinery and motor vehicles that generated all the revenue for the Cosmetics Business Branches during the Track Record Period. The transfer of such plant and machinery and motor vehicle took effect on 30 September 2007 and those plant and machinery and motor vehicle have been retained by our Group since the transfer.

The treasury and cash disbursement functions of the Cosmetics Business Branches are centrally administered by the respective fellow subsidiaries of our Group. All the transactions within the Cosmetics Business Branches are handled by our fellow subsidiaries centrally and therefore shown as movements in the special reserve as net contributions or return of contributions from the controlling equity holder in respect of the Cosmetics Business Branches.

## SUMMARY

### SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary historical combined financial information below in conjunction with Appendix I — “Accountants’ Report”, which has been prepared in accordance with HKFRS. The summary historical income statement data for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 30 June 2007 and the summary historical combined balance sheet data as of 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007 set forth below have been derived from the section titled “Accountants’ Report”, which includes the combined financial information prepared by us and the opinion thereon issued by Deloitte Touche Tohmatsu, both of which are presented in Appendix I to this prospectus.

#### Combined Income Statements

	For the year ended 31 December			For the six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i>
<b>Turnover</b>	183,494	351,965	409,479	189,073	256,898
Cost of goods sold	(61,193)	(154,382)	(151,350)	(69,593)	(56,239)
<b>Gross profit</b>	122,301	197,583	258,129	119,480	200,659
Other income	4,969	3,135	4,426	1,017	1,640
Selling and distribution expenses	(36,859)	(49,759)	(34,940)	(8,861)	(21,410)
Administrative expenses	(23,754)	(35,481)	(55,135)	(19,646)	(45,967)
Finance costs	—	(5)	(24)	(8)	(31)
<b>Profit before taxation</b>	66,657	115,473	172,456	91,982	134,891
Taxation	(22,324)	(14,008)	(30,540)	(13,561)	(21,102)
<b>Profit for the year/period</b>	<u>44,333</u>	<u>101,465</u>	<u>141,916</u>	<u>78,421</u>	<u>113,789</u>
<b>Attributable to:</b>					
<b>Equity holders of the Company</b>	37,339	78,716	92,366	49,835	87,794
<b>Minority interests</b>	6,994	22,749	49,550	28,586	25,995
	<u>44,333</u>	<u>101,465</u>	<u>141,916</u>	<u>78,421</u>	<u>113,789</u>
Dividends ( <i>note 1</i> )					
Equity holders of the Company	—	—	135,000	—	—
Minority interests	—	—	75,000	—	—
	<u>—</u>	<u>—</u>	<u>210,000</u>	<u>—</u>	<u>—</u>
Earnings per share —					
Basic ( <i>note 2</i> )	<u>4.22 HK cents</u>	<u>8.89 HK cents</u>	<u>10.43 HK cents</u>	<u>5.63 HK cents</u>	<u>9.91 HK cents</u>

## SUMMARY

*Note 1:* No dividend has been paid or declared by the Company since its date of incorporation. However, in respect of the Track Record Period, the following dividends were paid by our Group's subsidiaries to the shareholders of Global Chemical (BVI) prior to the Reorganisation.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i>
Interim dividends paid to equity holders of the Company	—	—	135,000	—	—

*Note 2:* The calculation of the basic earnings per Share for the Track Record Period is based on the combined profit attributable to equity holders of the Company for each of the Track Record Period and on the weighted average number of 885,787,500, 885,787,500, 885,787,500, 885,787,500 and 885,787,500 Shares for the years ended 31 December 2004, 2005 and 2006, the six months ended 30 June 2006 and 2007, respectively.

There was no diluted earnings per Share for the three years ended 31 December 2006 and for the six months ended 30 June 2006 and 2007 as there were no potential ordinary shares outstanding.

The following table sets out a breakdown of our Group's turnover by major product line during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	<i>(unaudited)</i>									
Retail line	182,871	99.7	273,238	77.6	212,368	51.9	113,440	60.0	167,518	65.2
Professional line	—	—	36,163	10.3	127,151	31.0	55,809	29.5	66,179	25.8
Subtotal	182,871	99.7	309,401	87.9	339,519	82.9	169,249	89.5	233,697	91.0
Colour cosmetics (excluding personal care products)	623	0.3	34,262	9.7	19,105	4.7	9,139	4.8	10,628	4.1
ODM and OEM products	—	—	8,302	2.4	50,855	12.4	10,685	5.7	12,573	4.9
Total turnover	183,494	100.0	351,965	100.0	409,479	100.0	189,073	100.0	256,898	100.0



## SUMMARY

The following table sets out the breakdown of our turnover by geographical location during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
							<i>(unaudited)</i>			
PRC	169,928	92.6	334,795	95.1	350,839	85.7	176,183	93.2	241,762	94.1
Hong Kong	12,491	6.8	7,880	2.2	6,893	1.7	1,742	0.9	2,119	0.8
Macau	1,075	0.6	988	0.3	892	0.2	463	0.2	444	0.2
United Kingdom, United States and others ( <i>Note</i> )	—	—	8,302	2.4	50,855	12.4	10,685	5.7	12,573	4.9
<b>Total turnover</b>	<b>183,494</b>	<b>100.0</b>	<b>351,965</b>	<b>100.0</b>	<b>409,479</b>	<b>100.0</b>	<b>189,073</b>	<b>100.0</b>	<b>256,898</b>	<b>100.0</b>

*Note:* The amounts generated from the United Kingdom, the United States and others represent our Group's revenue generated from ODM and OEM customers. Others include Australia, Spain, Italy, France and Austria.

### Combined Balance Sheets

	THE GROUP				THE COMPANY
	As at 31 December			As at 30 June	As at 30 June
	2004	2005	2006	2007	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment	66,484	139,921	415,527	505,304	—
Land use rights	—	119,205	121,443	122,718	—
Intangible assets	7,788	2,596	—	—	—
Investment in subsidiaries	—	—	—	—	116,218
Goodwill	—	—	—	222,963	—
Deposit made on acquisition of property, plant and equipment	—	10,485	34,911	123	—
Deposit made on acquisition of land use rights	111,120	—	—	—	—
	<u>185,392</u>	<u>272,207</u>	<u>571,881</u>	<u>851,108</u>	<u>116,218</u>
<b>Current assets</b>					
Inventories	13,185	10,429	10,539	27,473	—
Trade and other receivables	130,832	56,617	51,535	20,836	—
Amounts due from fellow subsidiaries	—	70	5,687	7,686	—
Amount due from ultimate holding company	14,770	—	—	—	—
Bank balances and cash	13,732	11,689	118,289	36,881	—
	<u>172,519</u>	<u>78,805</u>	<u>186,050</u>	<u>92,876</u>	<u>—</u>

## SUMMARY

	THE GROUP				THE COMPANY
	As at 31 December			As at 30 June	As at 30 June
	2004	2005	2006	2007	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities					
Trade and other payables	21,001	20,734	121,438	107,303	—
Amounts due to fellow subsidiaries	20,661	56,954	345,930	192,700	—
Amount due to immediate holding company	63,983	63,983	170,983	384,969	—
Amount due to ultimate holding company	—	2,829	28,632	67,895	—
Taxation payable	—	—	10,591	15,748	—
	105,645	144,500	677,574	768,615	—
Net current assets (liabilities)	66,874	(65,695)	(491,524)	(675,739)	—
Net assets	252,266	206,512	80,357	175,369	116,218
Capital and reserves					
Paid-in capital	65	65	65	9,085	9,085
Reserves	245,207	176,070	61,209	138,829	107,133
Equity attributable to equity holders of the Company	245,272	176,135	61,274	147,914	116,218
Minority interests	6,994	30,377	19,083	27,455	—
Total equity	252,266	206,512	80,357	175,369	116,218

## SUMMARY

### PROPOSED SPIN-OFF OF OUR GROUP FROM THE PARENT GROUP

Our Board of Directors and the board of directors of the Parent Company consider that the proposed spin-off of our Group (the “Proposed Spin-off”) will be beneficial to us for the following reasons:

- (1) We believe our Group has growth paths and different strategies from the Parent Group. The Proposed Spin-off will therefore allow separate platforms for our business and that of the Parent Group to grow with more focused development and strategic planning of our respective operations.
- (2) The Proposed Spin-off will create two distinctive companies in terms of business nature so as to offer the shareholders of the Parent Company with an opportunity to participate in the future developments of our Group as well as the Parent Group and flexibility to invest in both or either of the groups.
- (3) The Proposed Spin-off will enable the management team of the Parent Group to focus on building its core businesses, thereby enhancing the decision-making process and its responsiveness to market changes.
- (4) The Proposed Spin-off will provide a mechanism to attract and motivate our Group’s management directly in line with the financial performance of our Group on a stand-alone basis. Following the Proposed Spin-off, our Group’s business will be managed by a management team experienced in the skincare products and colour cosmetics industry which is distinct from the management of the Parent Group which is experienced in household products, industrial products and biotechnology products industries. Our Group intends to put in place a system of performance-based rewards system for its management team. Following the Proposed Spin-off, as the businesses of our Group will be aligned with the expertise and interests of its management, the management is more likely to be motivated to perform well.
- (5) Prior to the Proposed Spin-off, the Parent Group was a conglomerate engaging in several businesses including the manufacturing and sale of household products, industrial products, cosmetics and skincare products and biotechnology products with medical applications and investment and/or trading in marketable securities, bonds, foreign currencies, various funds and income generated fixed assets’ portfolios. Following the Proposed Spin-off, our business will entirely focus on the manufacturing of skincare products and colour cosmetics. Our distinct corporate identity will make it easier for us to attract suitable management talent who are experienced in the skincare products and colour cosmetics industry. There will not be any competition between our Group and the Parent Group following the Proposed Spin-off.
- (6) The Proposed Spin-off is expected to improve the operational and financial transparency of our Group and provide investors, the market and rating agencies with greater clarity on the businesses as well as the financial status of our Group. The Proposed Spin-off will require our Group to report its financial performance and operational compliance separately from those of the Parent Group. The separate reporting requirement would bring operational and financial transparency to our Group.

## SUMMARY

- (7) The Proposed Spin-off will provide separate fund-raising platforms for our Group with respect to our operations and future expansion.

The Proposed Spin-off by the Parent Company complies with the requirements of Practice Note 15 to the Listing Rules.

For details of the Parent Group's business, please refer to the section headed "Relationship with Controlling Shareholder" in this prospectus.

### PRE-IPO INVESTMENT

On 3 July 2007, the Pre-IPO Investor entered into a subscription agreement (the "Subscription Agreement") with the Parent Company and us, and subscribed for 91,500 REPS, which shall be automatically converted into 9,150,000 Shares (which carry the right to participate in the Capitalisation Issue) immediately prior to our initial public offering for a consideration of US\$21,000,000 (equivalent to approximately HK\$164,178,000) in cash. This represents an aggregate of 9.15% of our enlarged issued share capital, on a fully diluted basis immediately following completion of the conversion rights attaching to the REPS, but prior to the issue of new Shares pursuant to the Global Offering, and approximately 6.86% of our issued share capital immediately following completion of the Reorganisation, the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme). The proceeds from the investment were used to repay part of the loan due from us to the Parent Group. Please refer to the section headed "Relationship with Controlling Shareholder — Independence from Parent Group — Financial Independence" in this prospectus.

The principal terms and conditions in relation to the REPS under the Subscription Agreement include:

- The 91,500 REPS held by the Pre-IPO Investor will be converted into 9,150,000 Shares (which carry the right to participate in the Capitalisation Issue) immediately prior to our initial public offering pursuant to the Subscription Agreement.
- The price which the Pre-IPO Investor paid for the REPS (the "Subscription Price"), represents a discount of approximately 62.29% to the bottom end of the stated price range of the Offer Price, and a discount of 70.22% to the top end of the stated price range of the Offer Price, on the basis of the enlarged share capital of the Company upon completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme). The Subscription Price was arrived at after arm's length negotiations with the Pre-IPO Investor with reference to the performance and earnings of our Group in 2006, our Group's future prospects and the potential growth of the retail and cosmetics industry in the PRC generally.
- Any Shares converted by the Pre-IPO Investor will be subject to a contractual 180-day lock-up period from the Listing Date and they will not be counted as part of the public float.

## SUMMARY

Under the Subscription Agreement, the Pre-IPO Investor is entitled to the following rights:

*Dividends.* Periodic payments of preferential dividends in respect of the REPS distributed by us and shall be calculated at 5% of the nominal or face amount of each REPS, being US\$229.5082 each. Such dividend rights will cease upon conversion of the REPS.

*Reserved matters.* Consent is required to be obtained from the Pre-IPO Investor for certain reserved matters of our Group (such as capital distribution of our assets or ordinary shares, distribution or issue of new ordinary shares of our Company, change of business nature of our Company, inter-company transaction and declaration of dividend by us).

*Redemption rights.* The Pre-IPO Investor is entitled to redeem the REPS if our initial public offering is not effected at any time after the first 24 months of the date of issue of the REPS, namely 7 August 2007.

The rights granted to the Pre-IPO Investor under the Subscription Agreement include certain rights on the reserved matters mentioned above. All rights granted to the Pre-IPO Investor under the Subscription Agreement and not generally available to other shareholders will be terminated upon Listing.

It is our development strategy to seek internationally reputable investors to diversify our shareholder base and we believe the introduction of the Pre-IPO Investor will enhance our shareholder profile and create prospects and new contacts for additional business opportunities.

### SHARE-BASED PAYMENT TRANSACTIONS

During the Track Record Period, share options granted by the Parent Company, the ultimate holding company, under its share option scheme include options granted for the primary purpose of providing incentives to our Directors including Judy Lau, Wong Wai Kwan Connie and Lui Wai Mui Grace, eligible employees, customers and suppliers of our Group, who were only employed by our Group or rendered services solely to our Group.

The options were granted on 7 June 2004, 13 June 2005 and 20 June 2006 and the estimated fair values of the options are HK\$7,848,000, HK\$13,461,000 and HK\$16,744,000, respectively.

The options granted on 7 June 2004 and 13 June 2005 vested immediately from the grant date. For the options granted on 20 June 2006, 20% of them vested immediately from the grant date, an additional 30% vested one year from the grant date, and the remaining 50% will vest two years from the grant date. All options are settled by physical delivery of shares and are then exercisable within a period of three years from the grant date. If certain vesting conditions cannot be fulfilled, the amounts to be charged to income statements will be reduced.

In such connection, our Group recognised the total expenses of HK\$7,848,000, HK\$13,461,000 and HK\$8,034,000 for the three years ended 31 December 2006, respectively, and HK\$4,460,000 for the six months ended 30 June 2007. The remaining estimated fair values of the options granted on 20 June 2006 of HK\$2,212,000 will be charged to our Group's income statement in the second half of 2007 for the six months from 1 July 2007 to 31 December 2007, which is the month in which our Group was listed and approximately HK\$2,038,000 will be charged in the year ending 31 December 2008 after Listing and the

## SUMMARY

amount represents the maximum amounts arising from the share options granted on 20 June 2006. After Listing, the Parent Group will not continue to grant share options to our Directors, eligible employees, customers and suppliers of our Group, save for Mr. Lau, who is our non-executive Director and the executive director of the Parent Group, but the amount will not be charged to our Group. The corresponding amount to the total expenses of HK\$7,848,000 for the year ended 31 December 2004 has been recognised as a credit to reserve. The corresponding amount to the total expenses for the years ended 31 December 2005 and 2006, and for the six months ended 30 June 2007 were charged by the ultimate holding company and credited to amount due to the ultimate holding company. Except for the expenses of HK\$7,848,000 for the year ended 31 December 2004 which has been recognised as a credit to reserve, all share option expenses charged to our Group have to be fully settled by our Group to the Parent Group.

### PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix III — “Profit Forecast”, our forecast profit attributable to our equity holders for the year ending 31 December 2007 is unlikely to be less than HK\$205.3 million under HKFRS.

Forecast combined profit attributable to equity

holders of the Company (*Notes 1 & 2*) . . . . . not less than HK\$205.3 million

Forecast fully diluted earnings per Share (*Note 3*) . . . . . not less than HK\$0.16

*Notes:*

- 1. The bases and assumptions on which the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 has been prepared are summarised in Appendix III to this prospectus.*
- 2. The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 prepared by the Directors is based on the audited combined results of our Group for the six months ended 30 June 2007, our Group’s unaudited combined management accounts for three months ended 30 September 2007 and a forecast of the combined results of our Group for the remaining three months ending 31 December 2007 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2007. The forecast has been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by our Group as stated in Accountants’ Report set out in Appendix I to this prospectus.*
- 3. The calculation of the forecast earnings per Share is based on the assumption that the Company had been listed since 1 January 2007 and a total number of 1,300 million Shares were in issued throughout the year.*

### DIVIDEND POLICY

We will declare dividends, if any, on a per Share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a financial year will be subject to Shareholders’ approval. Under the Cayman Companies Law and our Articles of Association, all of our Shareholders have equal rights to dividends and distributions. Holders of the Shares will share proportionately on a per Share basis in all dividends and other distributions declared by our Board of Directors.

## SUMMARY

No dividend was declared by our subsidiaries for the two years ended 31 December 2005 and the six months ended 30 June 2007. A dividend payable to equity holders (including minority shareholders of a subsidiary) of HK\$210.0 million was declared by our subsidiaries during the year ended 31 December 2006. The historical dividend distributions are not indicative of our future dividend distribution policy.

Subject to the factors described above, we currently intend to propose at our next annual Shareholders' meeting an annual dividend of approximately 40.0% of our net profit available for distribution to Shareholders after the Global Offering.

### OFFER STATISTICS

	<b>Based on an Offer Price per Share of HK\$4.88</b>	<b>Based on an Offer Price per Share of HK\$6.18</b>
Market capitalisation of our Shares <sup>(1)</sup> .....	HK\$6,344.0 million	HK\$8,034.0 million
Prospective price/earnings multiple:		
On a pro forma fully diluted basis <sup>(2)</sup> .....	30.90 times	39.13 times
Unaudited pro forma adjusted net tangible asset value per Share <sup>(3)</sup> .....	HK\$1.08	HK\$1.39

*Notes:*

- (1) The calculation of market capitalisation is based on 1,300 million Shares expected to be in issue immediately following the Global Offering and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.
- (2) Based on the forecast earnings per Share for the year ending 31 December 2007.
- (3) The unaudited pro forma adjusted consolidated net tangible asset value per Share is based on 1,300 million Shares expected to be in issue immediately following the Global Offering and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised.

### RISK FACTORS

Our Directors consider that there are certain risks and considerations relating to our business, the industry, the PRC and the Global Offering. These risk factors are set out in the section headed "Risk Factors" in this prospectus and are summarised as follows:

#### Risks Relating to Our Business

- We may fail to effectively promote our "Marjorie Bertagne" (MB) brand, which may adversely affect our performance and sales of our "Marjorie Bertagne" (MB) brand products
- We sell our "Marjorie Bertagne" (MB) products entirely through a network of distributors and our success depends on distributors' ability to successfully promote and sell our products
- Our brand equity and brand image may be affected if our distributors fail to comply with our pricing policy

## SUMMARY

- Our expansion strategy may not be successful
- Our expansion into the manufacture of our new product line is subject to rapid changes in consumer tastes and preferences
- We rely on a limited number of key customers in our ODM and OEM business
- Our results of operations may fluctuate due to seasonality
- We may not be able to adequately protect our intellectual property rights, which could harm our “Marjorie Bertagne” (MB) brand and our business
- Any inappropriate use of our trademarks by our distributors may damage our reputation and negatively affect our results of operations and financial condition
- Our distributors’ aggressive marketing of competitors’ products may affect our results of operations and financial condition
- Any inappropriate use of our products by the professional skincare consultants of the health and beauty salons operated by our distributors may damage our reputation and negatively affect our results of operations and financial condition
- Our licence to manufacture and sell our products using hEGF is non-exclusive and the technology know-how in relation to hEGF is not patented
- There is no guarantee that our products will not become subject to the adjusted consumption tax
- There is no guarantee that we will continue to receive the preferential tax treatment we currently enjoy, and dividends paid to us from our operations in China may become subject to income tax
- We rely on sales in the PRC
- A slowdown in the growth of the PRC’s economy may affect our growth and profitability
- We may not be able to pay dividends
- We may not be able to adequately manage our inventory risks
- We rely on key management
- We need to continuously introduce new skincare products and colour cosmetics to remain competitive and we may not be able to do so
- We may fail to develop new products or our products may not be well received by the market



## SUMMARY

- Inability to effectively manage our growth
- Our products may face competition from substitution and imitation products
- We rely on a limited number of key suppliers
- Our research and development efforts may not be successful
- Our business may be affected by product liability claims
- We recorded net current liabilities during the two years ended 31 December 2006 and the six months ended 30 June 2007 and there is no assurance that we will not record net current liabilities again in the future
- We may not be able to keep up with changes in, and comply with laws and regulations

### **Risks Relating to the Industry**

- Our industry is highly competitive
- Competition may intensify resulting from the PRC's entry into WTO
- We require a number of regulatory licences and approvals in order to sell our skincare products and colour cosmetics

### **Risks Relating to the PRC**

- The PRC's economic, political and social conditions and government policies could adversely affect our business
- Government control of currency conversion and future movements in exchange rates may restrict our ability to pay dividends in foreign currencies
- An outbreak of the highly pathogenic avian influenza caused by the H5N1 virus ("avian flu" or "bird flu"), Severe Acute Respiratory Syndrome ("SARS") or other contagious disease may have an adverse effect on the economies of certain Asian countries and may adversely affect our results of operations
- The legal system in the PRC is less developed than in certain other countries and laws may not be interpreted and enforced in a consistent manner
- Acts of God, acts of war and other disasters could affect our business

## SUMMARY

### **Risks relating to the Global Offering**

- There has been no prior public market for our Shares
- Trading price of our Shares may be volatile which could result in substantial losses for investors purchasing Offer Shares in the Global Offering
- Future sales of substantial amounts of our Shares in the public market could have a material adverse effect on the prevailing market price of our Shares
- The Parent Company may take actions that conflict with the best interests of our public shareholders
- Certain facts, forecasts and other statistics with respect to China, the PRC economy and the skincare products and colour cosmetics industry in this prospectus are derived from various official government publications and may not be reliable
- You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any projections, valuations and other forward-looking information

## DEFINITIONS

**In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.**

“Application Form(s)”	<b>white</b> application form(s), <b>yellow</b> application form(s), <b>blue</b> application form(s) and <b>pink</b> application form(s) or, where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on 15 November 2007 and as amended from time to time, a summary of which is set out in Appendix V to this prospectus
“associate”	has the meaning ascribed thereto under the Listing Rules
“Assured Entitlement”	the entitlements of Qualifying GGT Shareholders to apply for Reserved Shares under the Preferential Offer on the basis of an assured entitlement of one Reserved Share for every whole multiple of 60.65 GGT Shares held by each Qualifying GGT Shareholder at the close of business on the Record Date
“Bio-Click”	Bio-Click Technologies Limited, a company incorporated in Hong Kong on 7 January 2000 with limited liability and an independent third party with respect to the Company. It is owned as to 48.54% by Vivid King Limited, as to 33.98% by Wong Wan Keung, Raymond, as to 14.56% by Cue Nelson and as to 2.91% by Hong Kong University of Science and Technology R and D Corporation Limited
“Board of Directors” or “Board”	the board of directors of our Company
“Branch Cosmetics Business”	the Cosmetics Business engaged by the Cosmetics Business Branches
“Business Day”	any day (other than a Saturday or Sunday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“BVI”	British Virgin Islands
“CAGR”	acronym for compound annual growth rate
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of the share premium account of our Company as referred to in the section headed “Further Information about our Company and our subsidiaries — Resolutions in writing of the Shareholders passed on 15 November 2007” in Appendix VI to this prospectus

## DEFINITIONS

“Cayman Companies Law”	the Companies Law (2007 Revision) of the Cayman Islands and any amendments or other statutory modifications thereof
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“Company”, “our Company”, “we”, “us”	Bio Beauty Group Ltd. (真優美集團有限公司), a company incorporated in the Cayman Islands on 7 June 2007 as an exempted company with limited liability and, except where the context otherwise requires, all of its subsidiaries
“Company Law”	中華人民共和國公司法 (the Company Law of the PRC), as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of the Company, means the Parent Company
“Cornerstone Investors”	Chow Tai Fook Nominee Limited and World Fund Pte. Limited
“Cosme-Tech”	Cosme-Tech S.A.R.L., a limited liability company incorporated in France on 23 January 1997 and an independent third party with respect to the Company
“Cosmetic Business”	the manufacture and sale of skincare products and colour cosmetics
“Cosmetics Business Branches”	the branches of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China), wholly-owned subsidiaries of the Parent Group, which were engaged in the manufacturing and sale of skincare products and colour cosmetics during the Track Record Period

## DEFINITIONS

“Cristal Marketing”	Cristal Marketing Management Company Limited, a company incorporated in Hong Kong on 24 August 2001 with limited liability, which was a substantial shareholder of Global Cosmetics (HK) during the Track Record Period and, as at the date of this prospectus, is a substantial shareholder of our Company. It is wholly-owned by Mr. Leung Hung Fai, an independent third party with respect to the Company, through Supreme China Limited
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission)
“Directors”	the directors of our Company
“Dongguan Gao Bao”	東莞高寶化工有限公司 (Dongguan Gao Bao Chemical Company Limited*), a wholly foreign owned enterprise established in the PRC on 16 April 1998 and a wholly-owned subsidiary of the Parent Company
“Dongguan Proamine”	東莞寶麗美化工有限公司 (Dongguan Proamine Chemical Co., Limited*), a wholly foreign owned enterprise established in the PRC on 29 August 1995 and a wholly-owned subsidiary of the Parent Company
“Eligible Employee(s)”	full-time employee(s) of our Group in Hong Kong, other than a director or a chief executive of our Company or any of its subsidiaries, an existing beneficial owner of the Shares or their respective associates, a United States person or a person who is within the United States (as both terms are defined in Regulation S), or a person who does not have a Hong Kong address
“Excluded GGT Shareholders”	registered holders of GGT Shares who are directors or chief executive of any member of our Group or the Parent Company, or associates of such directors or chief executive
“GDP”	gross domestic product (all references to GDP growth rates are, unless expressly specified otherwise, to real as opposed to nominal rates of GDP growth)
“GGT Shares”	ordinary shares with a par value of HK\$0.10 each in the share capital of the Parent Company
“Global Chemical (BVI)”	Global Chemical Investment Limited, a limited liability company incorporated in the BVI on 9 August 1996 and a wholly-owned subsidiary of our Company
“Global Chemicals (China)”	Global Chemicals (China) Company Limited (高寶化工(中國)有限公司), a limited liability company incorporated in Hong Kong on 15 May 1987 and a wholly-owned subsidiary of the Parent Company

## DEFINITIONS

“Global Coordinator”	Macquarie
“Global Cosmetics (China)”	高寶化妝品(中國)有限公司 (Global Cosmetics (China) Company Limited*), a wholly foreign owned enterprise established in the PRC on 1 April 2004 and a wholly-owned subsidiary of Global Cosmetics (HK)
“Global Cosmetics (France)”	Global Cosmetics (France) S.A.R.L., a limited liability company incorporated in France on 21 November 2001 and a wholly-owned subsidiary of Global Chemical (BVI)
“Global Cosmetics (HK)”	Global Cosmetics (HK) Company Limited (高寶化妝品(香港)有限公司), a limited liability company incorporated in Hong Kong on 6 August 2004 and a wholly-owned subsidiary of Global Chemical (BVI)
“Global Idea”	Global Idea (Int’l) Co., Limited (高寶創意(國際)有限公司), a limited liability company incorporated in Hong Kong on 15 November 2004 and a wholly-owned subsidiary of Global Kingdom
“Global Kingdom”	Global Kingdom International Limited, a limited liability company incorporated in the BVI on 3 January 2003 and a wholly-owned subsidiary of Global Chemical (BVI)
“Global Marketing”	Global Marketing (Int’l) Co., Limited (高寶市場拓展(國際)有限公司), a limited liability company incorporated in Hong Kong on 15 November 2004 and a wholly-owned subsidiary of Global Kingdom
“Global Offering”	the Public Offer and the International Offer (including the Preferential Offer)
“Global Success”	Global Success Properties Limited, a limited liability company incorporated in the BVI on 2 May 2000 and a wholly-owned subsidiary of the Parent Company
“Globe Wealthy”	Globe Wealthy Limited, a limited liability company incorporated in the BVI on 28 November 2005 and a wholly-owned subsidiary of Global Chemical (BVI)
“Group” or “our Group”	our Company and its subsidiaries and, in respect of the period before our Company became the holding company of such subsidiaries, the entities which carried on the business of the present Group at the relevant time (including, unless the context otherwise requires, High Billion since the date of its incorporation)

## DEFINITIONS

“HIBOR”	the rate designated as the Hong Kong Interbank Offered Rate that appears on Reuters or the rate equal to the arithmetic mean of the offered rates of any three of the leading reference banks in Hong Kong interbank market
“High Billion”	High Billion Investment Limited (萬高投資有限公司), a limited liability company incorporated in Hong Kong on 13 October 2000 and a wholly-owned subsidiary of Global Chemical (BVI)
“HK\$” (or “HK dollars”) and HK cents	Hong Kong dollars and Hong Kong cents, respectively, the lawful currency of Hong Kong
“HKFRS”	the Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Underwriters”	the several underwriters of the Public Offer listed in “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 3 December 2007 relating to the Public Offer entered into among us, the Hong Kong Underwriters and the Global Coordinator
“ICEA”	ICEA Capital Limited, licensed under transitional arrangement to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“IFRS”	International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC)
“International Offer”	the offer of International Offer Shares comprising of (a) Shares to be offered to professional, institutional and other investors; and (b) Reserved Shares to be allotted and issued to Qualifying GGT Shareholders on an assured basis under the Preferential Offer, as further described in “Structure of the Global Offering”

## DEFINITIONS

“International Offer Shares”	351,000,000 Shares, consisting of 286,000,000 newly issued Shares offered by us and 65,000,000 Sale Shares offered by the Selling Shareholders pursuant to the International Offer (subject to adjustment and the Over-allotment Option as described in “Structure of the Global Offering”) which are the subject of the International Offer
“International Purchase Agreement”	the international purchase agreement relating to the International Offer expected to be entered into among us, the Selling Shareholders, the International Underwriters and the Global Coordinator on or around 7 December 2007
“International Underwriters”	the group of underwriters, led by the Global Coordinator, which is expected to enter into the International Purchase Agreement to underwrite the International Offer
“Intertek”	Intertek Group Plc, a company incorporated in the United Kingdom with limited liability and the shares of where are listed on the London Stock Exchange
“Issuing Mandate”	the general unconditional mandate given to the Directors by the Shareholders relating to the issue of new Shares, particulars of which are set forth in the paragraph headed “Resolutions in writing of the Shareholders passed on 15 November 2007” in Appendix VI to this prospectus
“Joint Sponsors”	Macquarie and ICEA
“Latest Practicable Date”	23 November 2007, being the latest practicable date for ascertaining certain information in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Stock Exchange, expected to be on or around 14 December 2007
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Macau”	the Macau Special Administrative Region of the PRC
“Macquarie”	Macquarie Securities Limited, licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Main Board”	the main board of the Stock Exchange
“Maximum Offer Price”	the maximum price under the Global Offering of HK\$6.18 per Share



## DEFINITIONS

“Ministry of Finance”	中國財政部 (the PRC Ministry of Finance)
“Mr. Lau”	Mr. Lau Jim Jin-wei, the Chairman of the Parent Company and the non-executive Director
“Offer Price”	the final Hong Kong dollar price per Share (exclusive of brokerage, Stock Exchange trading fee and SFC transaction levy) at which the Offer Shares are to be issued pursuant to the Global Offering, to be determined as further described in “Structure of the Global Offering — Determining the Offer Price”
“Offer Shares”	the Public Offer Shares and the International Offer Shares including, where relevant, any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by Cristal Marketing to the Global Coordinator (on behalf of the International Underwriters) under the International Purchase Agreement pursuant to which Cristal Marketing may be required by the Global Coordinator to sell up to an aggregate of 58,500,000 additional Shares (representing approximately 15% of the number of Offer Shares initially available under the Global Offering) at the Offer Price, as further described in “Structure of the Global Offering — The Over-allotment Option”
“Overseas GGT Shareholders”	registered holders of GGT Shares whose addresses on the register of members of the Parent Company were outside Hong Kong at the close of business on the Record Date
“Parent Company”	Global Green Tech Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 274)
“Parent Group”	Parent Company and its subsidiaries and as the context may require, excluding our Group
“PBOC”	中國人民銀行 (the People’s Bank of China, the central bank of the PRC)
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day’s PRC interbank foreign exchange rates and with reference to current exchange rates on the world financial markets
“PRC” or “China”	the People’s Republic of China which, except where the context otherwise requires, references in this prospectus to the PRC or China exclude Taiwan, Hong Kong and Macau

## DEFINITIONS

“PRC government”	the central government of the PRC including all political subdivisions (including provincial, municipal and other local or regional government entities) and organisations of such government or, as the context requires, any of them
“Preferential Offer”	the preferential offer (as to allocation only) of the Reserved Shares to Qualifying GGT Shareholders at the Offer Price, subject to and in accordance with the terms and conditions set out in this prospectus and the <b>blue</b> Application Form, as further described in the section headed “Structure of the Global Offering — The Preferential Offer” in this prospectus
“Pre-IPO Investor”	Macquarie Investment Holdings No. 2 Pty Limited, an affiliate of Macquarie Group Limited
“Price Determination Date”	the date, expected to be at or around 12:00 noon, 7 December 2007 but no later than 7:00 p.m., 7 December 2007, on which the Offer Price is fixed for the purposes of the Global Offering
“Principal Share Registrar”	Butterfield Fund Services (Cayman) Limited
“Proamine Plant”	a portion, having a gross floor area of approximately 1,920 sq.m., in a multi-storey factory complex which is owned by the Parent Group and is located at Tu Tang Village, Chang Ping Town, Dongguan City, Guangdong Province, the PRC
“Public Offer”	the offer of Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	39,000,000 new Shares (subject to adjustment as described in the section entitled “Structure of the Global Offering”) being offered by us for subscription at the Offer Price under the Public Offer
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Qualifying GGT Shareholder(s)”	registered holder(s) of GGT Shares, whose names appeared on the register of members of the Parent Company as holding 60.65 or more GGT Shares at the close of business on the Record Date, other than Overseas GGT Shareholders, U.S. GGT Shareholders and Excluded GGT Shareholders
“Record Date”	28 November 2007, being the record date for ascertaining the Assured Entitlement
“Regulation S”	Regulation S under the U.S. Securities Act

## DEFINITIONS

“Reorganisation”	the reorganisation of the businesses comprising our Group, as described in the paragraph headed “Corporate reorganisation” in Appendix VI to this prospectus
“REPS”	91,500 convertible preference shares with an aggregate par value of approximately US\$21,000,000 issued with the benefit of and subject to the terms and conditions of the preference share instrument dated 7 August 2007 by our Company to the Pre-IPO Investor
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, particulars of which are set forth in the paragraph headed “Resolutions in writing of the Shareholders passed on 15 November 2007” in Appendix VI to this prospectus
“Reserved Shares”	the 19,500,000 Offer Shares (representing approximately 5% of the Offer Shares initially available under the Global Offering (subject to adjustment and the Over-allotment Option)) offered pursuant to the Preferential Offer and which are to be allocated out of the Offer Shares being offered under the International Offer
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	國家外匯管理局 (the State Administration of Foreign Exchange)
“SAIC”	國家工商行政管理總局 (State Administration for Industry and Commerce)
“Sale Shares”	65,000,000 Shares (26,000,000 Shares and 39,000,000 Shares being offered for sale by the Parent Company and Cristal Marketing respectively pursuant to the International Offer)
“Securities and Futures Commission” or “SFC”	the Securities and Futures Commission of Hong Kong
“Selling Shareholders”	the Parent Company and Cristal Marketing
“SFO”	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares of nominal value of HK\$0.10 each in the capital of our Company

## DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 15 November 2007, the principal terms of which are set forth under the paragraph headed “Share Option Schemes — Share Option Scheme of our Company” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of the Shares
“Stabilising Manager”	Macquarie
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the three financial years of our Company ended 31 December 2006 and the six months ended 30 June 2007
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Purchase Agreement
“United States” or “U.S.”	the United States of America, including its territories and possessions
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“U.S. GGT Shareholders”	registered holders of GGT Shares who are U.S. persons or who are resident in the United States (as such terms are defined in Regulation S)
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“WTO”	the World Trade Organization

*In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or U.S. dollars and vice versa at an exchange rate of RMB0.9738 = HK\$1.00 or RMB7.6132 = US\$1.00, respectively, and certain amounts denominated in U.S. dollars have been translated into HK dollars and vice versa at an exchange rate of US\$1.00 = HK\$7.8180, in each case, for illustration purpose only. Such conversions are solely for the purpose of illustration and shall not be construed as representations that amounts in Renminbi or U.S. dollars were or may have been converted into those currencies and vice versa at such rates or any other exchange rates.*

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

*In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail. English translation of company names in Chinese or another language which are marked with “\*” are for identification purposes only.*

## GLOSSARY OF TECHNICAL TERMS

**This glossary of technical terms contains terms used in this prospectus as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.**

“bFGF”	Basic Fibroblast Growth Factor, which is a basic polypeptide and has the effect of helping the healing of wounds, strengthening skin’s elasticity and helping blood circulation
“GMPC”	Good Manufacturing Practice of Cosmetics Products, being a standard laid down in the Guideline for Good Manufacturing Practice of Cosmetics Products published by the European Union and U.S. Food and Drug Administration which sets out the recommended practices for the manufacture of cosmetics and personal care products
“hEGF”	Human Epidermal Growth Factor, which is a polypeptide comprised of 53 amino acids and has the effect of encouraging human skin cells growth
”ISO9001”	International Organisation for Standardization standards for quality management which are primarily concerned with what an organisation does to ensure that its products conform to customer and applicable regulatory requirements and which set requirements for what an organisation must do to manage processes influencing product quality
“KGF”	Keratinocyte Growth Factor, which is one of the fibroblast growth factors, which has an effect on cell proliferation and differentiation
“ODM”	original design manufacturing, under which the manufacturer owns the design of the products and the products are marketed and sold under the customer’s own brand name
“OEM”	original equipment manufacturing, under which products are manufactured in whole or in part in accordance with the customer’s specifications and are marketed and sold under the customer’s own brand name

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “expect”, “believe”, “plan”, “intend”, “project”, “anticipate”, “may”, “will”, “would” and “could” or similar words or statements, in particular, in “Business” and “Financial Information” in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets and globally.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus, and the following:

- future developments in the skincare products and colour cosmetics industry particularly in Hong Kong and the PRC;
- the industry regulatory environment as well as the outlook of the skincare products and colour cosmetics industry generally;
- the amount and nature of, and potential for, future development of our business;
- our business strategy and plan of operation; and
- our dividend policy.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to our intentions or any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

## RISK FACTORS

**You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below prior to investing in our Shares. You should pay particular attention to the fact that we are a company with operations in the PRC and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decrease due to any of these risks, and you may lose all or part of your investment.**

### RISKS RELATING TO OUR BUSINESS

#### **We may fail to effectively promote our “Marjorie Bertagne” (MB) brand, which may adversely affect our performance and sales of our “Marjorie Bertagne” (MB) brand products**

We believe that brand image plays an important role in influencing consumers’ purchasing decisions for skincare products and colour cosmetics. Our “Marjorie Bertagne” (MB) brand is therefore critical to our success. If we fail to successfully promote our “Marjorie Bertagne” (MB) brand, its market recognition may suffer, we may not be able to sell our products at premium prices, and demand for our products may decline or fail to rise, and, as a result, our results of operations may be adversely affected.

#### **We sell our “Marjorie Bertagne” (MB) products entirely through a network of distributors and our success depends on distributors’ ability to successfully promote and sell our products**

We do not directly sell our “Marjorie Bertagne” (MB) products to consumers. We sell all of our “Marjorie Bertagne” (MB) products through distributors. We had five, five, 16 and 16 distributors in the PRC as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, respectively. During such periods, we had one distributor in Hong Kong. We do not have any wholesale operations. Our retail operations are run by our distributors under our supervision. For the three years ended 31 December 2006 and the six months ended 30 June 2007, our Group’s sales to its top five distributors represented approximately 97.6%, 93.4%, 49.9% and 52.2%, respectively, of our total turnover, whilst sales to the largest distributor represented approximately 23.2%, 22.9%, 13.9% and 13.4%, respectively, of our total turnover during the respective periods. As such, the sales performance of our distributors and the ability of our distributors to expand their business and sales networks are crucial to the future growth of our business and directly affect our success in our business. In addition, save for the relationship with Cristal Marketing as disclosed in the section headed “Business — Sales and Distribution Channels” in this prospectus, we do not have long-term distribution agreements with our distributors, but generally we enter into distribution agreements with our distributors for a term of one year, renewable annually. For the three years ended 31 December 2006 and the six months ended 30 June 2007, our sales to Cristal Marketing accounted for approximately 7.4%, 2.5%, 1.9% and 1.0%, respectively, of our total turnover. There is no assurance that we will be able to renew the distribution agreements with these distributors. If we fail to do so, our results of operations may be adversely affected.

## RISK FACTORS

### **Our brand equity and brand image may be affected if our distributors fail to comply with our pricing policy**

Under the distribution agreements with our distributors, although we retain certain control over the operations of these distributors, as we do not directly sell our products to the end customers, we may not know if the distributors are able to on-sell our Group's products or sell them at recommended prices or have all the relevant licences to sell and distribute skincare products and colour cosmetics. Additionally, we may not be able to monitor the inventory level at our distributors and may not know if there are instances in which our distributors accumulate unsold inventory. Should this happen, our pricing policy may be affected and our brand equity and brand image may be adversely affected.

### **Our expansion strategy may not be successful**

One of our key strategies to grow our business is to aggressively expand our distribution channels in the next three years. If we fail to implement our future expansion plans, or if our expansion plans do not translate into higher revenues or better margins, we may not achieve the growth we expect. Our ability to obtain adequate funds to finance our expansion plans will depend on our financial condition and results of operations, as well as other factors outside our control, such as general market conditions, the performance of the skincare products and colour cosmetics industry, the demand for the types of products we offer, the success of our competitors and political and economic conditions in the PRC. If additional capital is unavailable, we may be forced to abandon some or all of our expansion plans, as a result of which our business, financial condition and results of operations could be adversely affected.

Our growth will be dependent upon, among other things, our ability to analyse correctly the conditions of our target markets, adapt to the business environment of the changing market conditions and conclude successful negotiations with potential business partners. If we fail to adapt to the business environment and conditions of these markets, and/or these markets suffer any downturn, and/or there is any political instability or fluctuation in the currency exchange rates and/or unexpected changes in regulatory requirements of such markets, and/or any of the business arrangements to which we are a party, is not successful, our operations and financial performance will be materially adversely affected.

### **Our expansion into the manufacture of our new product line is subject to rapid changes in consumer tastes and preferences**

As at 30 June 2007, the utilisation rate of our production plant was approximately 23.4%. We intend to build a new production plant for the production of perfume, our new line of product under the brand name of "Marjorie Bertagne" (MB), and also for our ODM and OEM customers. We plan to use approximately HK\$50 million of the net proceeds from the Global Offering to finance the construction costs of the new production plant and acquisition of new machinery. For more details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus. We cannot assure you that we will be able to gain market acceptance or significant market share for our new products. Consumer preferences change, and our new product line may fail to meet the particular tastes or requirements of consumers. Our failure to anticipate, identify or react to these particular tastes or changes could adversely affect the level of acceptance of our new products, which could in turn cause us to be unable to recover our development, production and marketing costs, thereby leading to a decline in our profitability.



## RISK FACTORS

### **We rely on a limited number of key customers in our ODM and OEM businesses**

As we only commenced our ODM and OEM business in 2005, and there was an increase in the orders placed by existing customers and orders received from new customers in 2006, our ODM and OEM turnover rose from HK\$8.3 million in 2005 to HK\$50.9 million in 2006. A portion of our sales in our ODM and OEM businesses were derived from several key customers, the top five customers of our ODM and OEM businesses which accounted for approximately 2.3%, 12.2% and 4.9%, respectively, of the total turnover of our Group for the two years ended 31 December 2006 and the six months ended 30 June 2007. For the two years ended 31 December 2006 and the six months ended 30 June 2007, our top five ODM and OEM customers accounted for approximately 99.6%, 98.3% and 99.3%, respectively, of our ODM and OEM turnover. Our ODM and OEM turnover accounted for approximately 2.4%, 12.4% and 4.9%, respectively, of our total turnover for each of the two years ended 31 December 2006 and the six months ended 30 June 2007. For each of the two years ended 31 December 2006 and the six months ended 30 June 2007, the number of our ODM and OEM customers was four, 11 and six, respectively. If any of our key customers reduce the size of the orders it places with us in the future, or cancel orders or terminate its business relationship with us entirely, there is no assurance that we will be able to obtain new orders from other customers replacing such lost sales or obtain other orders that are on commercially reasonable terms. Our business could be adversely affected if any of these relationships with our key customers are changed.

### **Our results of operations may fluctuate due to seasonality**

Our sales are subject to seasonality. Local spending behaviour is usually stable throughout a financial year, but is typically affected by seasonal shopping patterns during certain seasons such as Chinese New Year, Chinese National Day and the Christmas holidays. For example, skincare products and colour cosmetics are typically purchased as gifts during major festivals such as Christmas. A high proportion of our sales is typically recorded between September and January in the following year that covers such major festivals and holidays. As a result of these fluctuations, comparisons of sales and operating results within a financial year, are not necessarily meaningful and cannot be relied on as indicators of our performance. Any seasonal fluctuations reported in the future may not match expectations of our investors.

### **We may not be able to adequately protect our intellectual property rights, which could harm our “Marjorie Bertagne” (MB) brand and our business**

Our principal intellectual property rights include our “Marjorie Bertagne”, “MB” and “曼诗贝丹” trademarks. In addition, we have applied for the registration of certain trademarks such as “MB2”, “Face” and “Envita” in various jurisdictions, including Hong Kong, the PRC and the European Union. We have also applied for the registration of patent for our anti-wrinkle moisturiser and its production method. For more details, please refer to the paragraph headed “Further information about the business” in Appendix VI to this prospectus. The success of the patent application depends upon a number of factors, and we cannot guarantee that such application will not be challenged by third parties and will be successful. Should such application be challenged, rejected or unsuccessful, our business could be adversely affected. We depend to a significant extent on PRC laws and Hong Kong laws to protect our trademarks or other intellectual property rights. There is no assurance that third parties will not infringe our intellectual property rights and third parties will not seek to bring claim against us that our products infringe their intellectual property rights. In the event that we are unable to adequately protect or safeguard our intellectual property rights, our results of operation may be adversely affected.

## RISK FACTORS

We cannot assure you that the actions taken by us will be sufficient to protect our trademarks. The success of our applications for trademark registration depends on a number of factors, and there is no guarantee that all our trademarks will be successfully registered. It is possible that third parties may seek to initiate proceedings against us for infringement of their intellectual property rights through the use of our trademarks. In addition, we may initiate trademark infringement proceedings to defend the ownership of our trademarks. These proceedings may be costly and divert management personnel from their normal responsibilities, and the outcomes of these proceedings are difficult to predict. As some of our trademark applications are currently under application in various jurisdictions, it is not possible to determine whether our trademarks infringe, or will infringe on the intellectual property rights of third parties. If we are unsuccessful in defending any claim against us for infringement of others' trademark, we may be required to take certain actions including paying monetary damages or altering or ceasing to use our trademarks, any of which could adversely affect our business and reputation.

### **Any inappropriate use of our trademarks by our distributors may damage our reputation and negatively affect our results of operations and financial condition**

We allow Cristal Marketing and certain other distributors to use our "Marjorie Bertagne" and "曼诗贝丹" brand names as the trade name of their health and beauty salons and companies, the majority of which also sell products of other brands supplied by third parties. As at the Latest Practicable Date, there were six distributors which are permitted to use our "Marjorie Bertagne" and "曼诗贝丹" brand names as the trade name of the health and beauty salons and their companies. As we do not manage and control the operations of these salons, our reputation and goodwill may be damaged if they fail to manage their salons in a proper manner or any claim is pursued against us or the distributors for liability of products of other brands which are sold to consumers at the "Marjorie Bertagne" and "曼诗贝丹" salons. Even if the product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that the claim is related to our "Marjorie Bertagne" (MB) brand could adversely affect our reputation and our corporate and brand image. Such loss of goodwill could adversely affect our reputation, sales and results of operations.

### **Our distributors' aggressive marketing of competitors' products may affect our results of operations and financial condition**

We enter into distribution agreements with our distributors to distribute our "Marjorie Bertagne" (MB) products on a non-exclusive basis. Some of our distributors sell our products and also skincare products and colour cosmetics of other brands in their retail outlets such as health and beauty salons, cosmetics shops and specialty stores. As such, our distributors' aggressive marketing of competitors' skincare products and colour cosmetics may affect the sales performance of our products, and as a result, our results of operation and financial condition may be adversely affected.

## RISK FACTORS

### **Any inappropriate use of our products by the professional skincare consultants of the health and beauty salons operated by our distributors may damage our reputation and negatively affect our results of operations and financial condition**

We do not manage and control the operations of the health and beauty salons operated by our distributors. Our Directors believe that distributors are required to obtain the relevant licenses to operate the health and beauty salons. We only request our distributors to present business licenses before we enter into any distribution agreements with them. However, we are unable to ensure that the health and beauty salons, whether or not they are operated by our distributors, are given the necessary licenses before they sell the professional line of products. We provide training to the professional skincare consultants and conduct regular visits to the health and beauty salons to ensure that the professional skincare consultants use our products in a proper and safe manner. There can be no assurance that the professional skincare consultants will continue using our products in a proper manner. Our business reputation and brand image may be damaged in the event that the professional skincare consultants of the health and beauty salons operated by our distributors fail to use our products in a proper manner. Such loss of reputation and damage to our brand name could adversely affect our operations and financial position. There is no assurance that a third party will not bring a law suit against us for any wrongdoings made by the professional skincare consultants of the health and beauty salons operated by our distributors. Under such circumstances, we will be obliged to defend the litigation and provide evidence showing that we have no connection with such wrongdoing, which will likely cause us additional costs and expenses and will have an adverse impact on our business and financial condition.

### **Our licence to manufacture and sell our products using hEGF is non-exclusive and the technology know-how in relation to hEGF is not patented**

We do not own the technology know-how in relation to hEGF and rely on a non-exclusive licence granted by Bio-Click under an agreement for transfer of technology entered into between Bio-Click and High Billion to manufacture and sell our products using hEGF. Bio-Click is not obliged to inform us if it licenses the right of its technology know-how to any other third party. For more details, please refer to the section headed “History and Reorganisation — History and Development of the Group” in this prospectus. We cannot guarantee that Bio-Click will not license the technology know-how in relation to hEGF to our competitors. The technology know-how in relation to hEGF granted to us by Bio-Click is not patented. The absence of registration by Bio-Click for the technology know-how in relation to hEGF exposes Bio-Click to the possible unauthorised use, infringement or misappropriation of such technology know-how. This may result in such technology know-how being used and developed by third parties for their own business purposes. In the event that the technology know-how in relation to hEGF is licensed to our competitors and/or that Bio-Click’s technology know-how in relation to hEGF is infringed by any third parties, our business, results of operations and financial condition may be adversely affected.

## RISK FACTORS

### **There is no guarantee that our products will not become subject to the adjusted consumption tax**

On 20 March 2006, the State Administration of Taxation of the PRC promulgated the Notice of Ministry of Finance and State Administration of Taxation on Adjusting and Perfecting Consumption Tax Policies, which came into effect on 1 April 2006 and imposed additional consumption tax for manufacturers who manufacture and produce “high class” skincare products and colour cosmetics. We cannot rule out the possibility that we will become subject to the adjusted consumption tax in the future. In such event, our results of operation and financial condition may be adversely affected.

### **There is no guarantee that we will continue to receive the preferential tax treatment we currently enjoy, and dividends paid to us from our operations in China may become subject to income tax**

The rate of income tax chargeable on companies in China vary depending on the availability of preferential tax treatment or subsidies based on their industry or location. The current maximum corporate income tax rate is 33%. However, Global Cosmetics (China) is entitled to preferential tax treatment by reducing the Foreign Enterprise Income Tax (“FEIT”) rate to 24% in accordance with the relevant income tax laws and regulations of the PRC. Furthermore, Global Cosmetics (China) is entitled to an enterprise income tax exemption for its first two years of profitable operations, and a 50% tax reduction for the following three consecutive years. Global Cosmetics (China) enjoyed a full exemption from enterprise income tax in 2004 and 2005, and a 50% tax reduction in year 2006 and 2007. We expect that Global Cosmetics (China) will continue to be entitled to a 50% tax reduction in 2008. Please refer to the section headed “Financial Information — Factors Affecting Our Performance” in this prospectus for further information.

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) promulgated on 16 March 2007, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% from 1 January 2008. However, there will be a transition period for enterprises that currently receive preferential tax treatments granted by the relevant tax authorities. Enterprises that are currently subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transfer to the new tax rate within five years after the effective date of the new law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until such fixed term expires. Accordingly, once the new tax law is fully phased in, Global Cosmetics (China) may no longer be subject to preferential tax rates and/or tax exemptions, which could have a material adverse effect on our results of operations.

### **We rely on sales in the PRC**

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, income derived from sales in the PRC accounted for approximately 92.6%, 95.1%, 85.7% and 94.1%, respectively, of our turnover. Our Directors anticipate that income derived from sales in the PRC will continue to be our principal source of income in the near future. However, as the skincare products and colour cosmetics industry in the PRC is affected by the size of and purchasing power of its population (particularly its female population), the general state of its economy and political and social conditions in the PRC, should the GDP and GDP per capita of the PRC fall or there be any adverse changes in the aforesaid conditions, our performance and profitability could be adversely affected.

## RISK FACTORS

### **A slowdown in the growth of the PRC's economy may affect our growth and profitability**

Our business is dependent upon the economic and business environment in the PRC. In response to concerns relating to China's high rate of growth in industrial production, bank credit, fixed investment and money supply, the PRC government has expressed its intention to adopt measures to slow economic growth to a more moderate rate. There can be no assurance that the growth of the PRC economy will continue to be steady or uniform. In addition, a slowdown in the growth of the PRC economy may affect our growth and profitability.

### **We may not be able to pay dividends**

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, we recorded a net profit after taxation and minority interests of approximately HK\$37.3 million, HK\$78.7 million, HK\$92.4 million and HK\$87.8 million, respectively. No dividend was declared by our subsidiaries during the two years ended 31 December 2005 and the six months ended 30 June 2007. A dividend payable to equity holders including minority shareholders of a subsidiary of HK\$210.0 million, was declared by our subsidiaries during the year ended 31 December 2006.

There is no assurance that future amounts or rates of dividends will be similar to those in the past and potential investors should note that such dividend payments should not be used as a reference for the determination of our future dividend policy and that there can be no assurance that dividends will be paid in the future. The declaration, payment and amount of any of our future dividends will be subject to the recommendation and/or discretion of our Directors, which will depend on, among other things, our earnings, financial condition, cash requirement, the provisions of relevant laws and other relevant factors. Further details of our dividend policy are set out in the paragraph headed "Dividend Policy" under the section headed "Financial Information" in this prospectus.

### **We may not be able to adequately manage our inventory risks**

As at 30 June 2007, we had inventories of products of approximately HK\$27.5 million. Our inventories represented approximately 3.0% of our total assets as at 30 June 2007. It is essential for our business to maintain sufficient inventory to meet the demands of our customers. In the event that we do not maintain sufficient levels of inventory to meet the customers' demands, our profitability and prospects could be adversely affected.

On the other hand, if the level of inventory is too high, our financial performance could be affected by slow moving and obsolete stock. Stock provision and write-off made for the three years ended 31 December 2006 and the six months ended 30 June 2007 amounted to approximately HK\$1.9 million, HK\$5.3 million, HK\$35.5 million and nil for the respective periods. For the year ended 31 December 2005, the reversal of allowance for inventories credited to the income statement as other income was HK\$53,000. The amount represents the over-provision for allowance for inventories of one of the members of our Group for the year ended 31 December 2004 because some raw materials which were fully provided in 2004 could be used in the production process during the year ended 31 December 2005. No other reversal

## RISK FACTORS

of allowance for inventories was made during the Track Record Period. For the year ended 31 December 2006, the write-off of inventory of HK\$35,543,000 was comprised of a write-off of raw material of HK\$21,324,000 and a write-off of finished goods of HK\$14,219,000 mainly due to changes in formulation, image and packaging material.

In 2006, the management decided to change the packaging material of two product lines namely, the GG hEGF Bioactive Aging Defense Program and Bio Aqua System, from glass to acrylic. The change was made because acrylic is light in weight, cheaper in cost and its use was the latest trend for most well known skincare products and colour cosmetics brands. In addition, we had been able to locate several reliable acrylic suppliers in the PRC. During the same period, we also decided to change the formula and image of our Oil Balancing product line, which we no longer produce, and re-launch such product line under a new product line with new formulation namely, the Purifying Regime, to better fit the market needs. The Purifying Regime is different from the Oil Balancing product line in that it contains hEGF and is less acidic than the Oil Balancing product line. The containers of the Oil Balancing product line were also made of glass. We did not manage to sell off the remaining products which were all contained in glass bottles because we decided to utilise bottles that were more trendy and fashionable. We immediately started the use of acrylic containers and stopped the sales of old products, so that we can minimise the time of two different types of containers co-existed for the same products in the market to avoid confusion, and also sped up the process of unifying the packaging materials into acrylic. During the three years ended 31 December 2006 and the six months ended 30 June 2007, save for the six complaints relating to the condition of our products such as damage to the bottles and outer packaging caused during delivery, we did not receive any complaints resulting in the incurrance of any loss and damages in respect of product defects. The life-span of the products sold by us vary from one product to another, depending on factors including market trend, brand image and research and development. The average life-span of our skincare products and colour cosmetics is three years.

For colour cosmetics, we have not experienced any change of formulation. Based on the current market trend, our Directors estimate that the average life-cycle is approximately two years. For skincare products, save for Oil Balancing product line, we have not experienced any change of formulation. Based on the current market trend, our Directors estimate that the average life-cycle is approximately eight years. There is no assurance that we will be able to keep inventory at an optimal level to ensure that the demands of our customers are met whilst the risk of our products becoming obsolete is kept to a minimum. If we fail to do so, our business, financial condition and results of operations may be adversely affected.

### **We rely on key management**

Our success is, to a significant extent, attributable to the experience and expertise in the skincare products and colour cosmetics industry of our key management personnels, including Ms. Judy Lau, Ms. Wong Wai Kwan Connie and Ms. Lui Wai Mui Grace. Together with other senior management, they have been the key driver of our strategy and have been fundamental to our achievements to date. The successful management of our business is also, to a considerable extent, dependent on the services of Ms. Judy Lau, Ms. Wong Wai Kwan Connie, Ms. Lui Wai Mui Grace and other senior management. Our future performance will depend significantly upon contributions of such persons. The loss of service of any such key management personnel for any reason could have a material adverse effect on our business and our financial performance.



## **RISK FACTORS**

### **We need to continuously introduce new skincare products and colour cosmetics to remain competitive and we may not be able to do so**

The skincare products and colour cosmetics market is highly fragmented, the customers are tempted to shift their choices and preferences whenever there are new products launched or introduced by various marketing and pricing campaigns of different brands. In light of the highly competitive and volatile environment, in our experience the sales of our skincare products and colour cosmetics will inevitably decrease after a period of time after launching. We will need to continuously develop and launch new skincare products and colour cosmetics to the market in order to maintain our market share. Should we delay in developing and launching of new products or the new products have unsatisfactory sales performance, our profitability and financial performance could be adversely affected.

### **We may fail to develop new products or our products may not be well received by the market**

As part of our strategy, we plan to use approximately 15.0% of the net proceeds from the Global Offering to develop and promote our new line of skincare products and colour cosmetics. The future of our business will depend on the continuing success in achieving market acceptance for our existing products and the introduction of new products. Whilst we have successfully developed new products during the Track Record Period, there is no assurance that we will be able to continue to do so in the future. If we fail to develop new products or achieve market acceptance for our products in the future, our operation and financial performance will be materially adversely affected.

### **Inability to effectively manage our growth**

With the implementation of our business plans, our Directors expect that there will be a period of rapid growth in the future which could place a strain on our managerial, operational and financial resources. To accommodate this expected growth, we must implement new or upgrade operational and financial systems, procedures and controls. We may not succeed despite making such efforts and such failure to effectively manage our expansion could cause our expenses to increase and our revenues to decline or grow more slowly than expected, and could otherwise have a material adverse effect on our business, financial condition and results of operations.

### **Our products may face competition from substitution and imitation products**

Other manufacturers or distributors may manufacture or distribute imitation products which may compete directly with our products or distribute similar products or products having similar effects which could be used as substitutes for our products. These substitutes, especially those with lower prices, may adversely affect our business and profitability. There is no assurance that we will be able to prevent any imitation of or substitution for our products in the future. Imitation or counterfeit products may also be of inferior quality which could potentially damage the image of our products and could adversely affect our operation and profitability.

## RISK FACTORS

### **We rely on limited number of key suppliers**

For the three years ended 31 December 2006 and the six months ended 30 June 2007, purchases by us from the top five suppliers amounted to approximately 92.7%, 36.4%, 58.6% and 46.2%, respectively, of our total purchases. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the largest supplier accounted for approximately 46.6%, 10.5%, 14.9% and 14.0%, respectively, of our total purchases. In the event that we are unable to secure further purchases from any of these suppliers or any dispute arises between us and any of these suppliers, our operations may be adversely affected.

### **Our research and development efforts may not be successful**

Our Directors believe that our ability in researching and developing new and innovative skincare products and colour cosmetics is one of the major factors contributing to our success. However, because of the many uncertain factors such as rapid changes in market demands, the long period of time required for new product development and substantial cost of initial investment, there is no assurance that the research projects undertaken by us can be completed within the timeframe anticipated; the research projects undertaken by us can be successful; the new product can obtain approval for production or sale from relevant government authorities; the research results can be used for commercial production; or that the products will be acceptable to the market. If any of the new products fails to launch on time or receive the approval from relevant government authorities and achieve the anticipated results, our business and profitability could be adversely affected.

For the three years ended 31 December 2006 and the six months ended 30 June 2007, the total expenses incurred by us for research and development, including the gathering of market information and salaries paid to our research and development team by our Group, amounted to HK\$3,473,000, HK\$1,092,000, HK\$6,544,000, HK\$851,000, respectively. No research and development cost was capitalised during the Track Record Period.

Our research and development costs accounted for approximately 1.9%, 0.3%, 1.6% and 0.3%, respectively, of our turnover for each of the three years ended 31 December 2006 and the six months ended 30 June 2007.

Our research and development costs accounted for approximately 5.7%, 0.7%, 4.3% and 1.5%, respectively, of our cost of goods sold for each of the three years ended 31 December 2006 and the six months ended 30 June 2007.

We expect to maintain our total spending on research and development at 1% to 2% of our turnover in the future and will finance it by cash generated by operations. The level of spending will be varied according to the number of new products and ingredients being developed.



## RISK FACTORS

### **Our business may be affected by product liability claims**

The sale of our products (including our ODM and OEM products) may be subject to product liability claims. We maintain product liability insurance with global coverage (excluding the United States and Canada) in respect of our products. The U.S. and Canada are excluded from our product liability insurance coverage because the products sold by our ODM and OEM customers in these countries are insignificant as they only accounted for 1% of our total sales in 2006 and nil for the six months ended 30 June 2007. However, we are in the process of arranging for worldwide product liability insurance coverage in view of the increasing amount of ODM and OEM orders. However, there is no assurance that we will be successful in obtaining any payments under such policies or that any such claim is adequately covered by insurance payout in the event of a product liability claim.

### **We recorded net current liabilities during the two years ended 31 December 2006 and the six months ended 30 June 2007 and there is no assurance that we will not record net current liabilities again in the future**

We recorded net current liabilities of approximately HK\$65.7 million, HK\$491.5 million and HK\$675.7 million, respectively for the two years ended 31 December 2006 and the six months ended 30 June 2007, primarily due to outstanding advances from the Parent Group of approximately HK\$123.8 million, HK\$545.5 million and HK\$645.6 million in the respective periods. These advances from the Parent Group mainly served as capital expenditure and acquisition of minority interest in a subsidiary. We have obtained a bridge loan from bank to repay these advances from the Parent Group before Listing. For details of our indebtedness and liquidity, financial resources and capital structure, please refer to the section headed “Financial Information” in this prospectus. We cannot assure you that we will not experience periods of net current liabilities in the future.

### **We may not be able to keep up with changes in, and comply with laws and regulations**

We are subject to the laws and regulations of the PRC and Hong Kong. Although we have used our best endeavour to fully comply with all applicable laws and regulations, there is no assurance that we will continue to be able to do so should there be any amendment to the existing regulatory regime or implementation of any new laws or regulations. Any changes to the existing regulatory regime or implementation of any new laws or regulations may have an adverse impact on our operations. In such event, our results of operation and financial condition may be adversely affected.

## **RISKS RELATING TO THE INDUSTRY**

### **Our industry is highly competitive**

The skincare products and colour cosmetics industry is characterised by vigorous competition and rapidly changing market trends. With market trends in consumer preferences generally tending to shift to new, innovative and high performance products and services, we compete against other skincare products and colour cosmetics providers. Specifically in relation to the use of hEGF in skincare products, such use is not exclusive to us. Our Directors, having made all reasonable enquiries and to the best of their knowledge, believe that there are three other producers currently in the PRC market which can produce skincare products containing hEGF. Increased competition could result in price reduction, reduced profit

## **RISK FACTORS**

margins and loss of market share, any of which could materially adversely affect our operating results. Our competitors may be able to respond more rapidly to emerging new and innovative products and services and changes in consumer spending habits, or devote greater resources to the development, promotion and sale support of their products. There is no assurance that we can maintain our competitive position against current and potential competitors, especially those with significantly greater or stronger financial, marketing, service, support, technical and other position or resources.

### **Competition may intensify resulting from the PRC's entry into WTO**

Currently, the import of skincare products and colour cosmetics into the PRC is subject to import duty of 9.7%. Our Directors believe that, following the PRC's accession to the WTO, the PRC's skincare products and colour cosmetics market may open up further as import duty is reduced further. Our Directors believe that this will make it easier for skincare products and colour cosmetics to be imported to the PRC thereby increasing competition faced by our Group.

### **We require a number of regulatory licences and approvals in order to sell our skincare products and colour cosmetics**

The manufacture and sale of skincare products and colour cosmetics are subject to a number of licences, permits and approvals. For more details, please refer to the section headed "Business — Permits, Licences and Regulatory Compliance" in this prospectus. Our ability to sell our products, and to successfully implement our expansion strategies is dependent upon our ability to obtain, maintain and renew (where necessary) the relevant regulatory approvals under the PRC laws. If we are unsuccessful in obtaining and renewing such regulatory approvals or such approvals are revoked due to changes in the PRC laws or policies or the implementation thereof, we may be prohibited from selling our skincare products and colour cosmetics, and our results of operations may be adversely affected.

## **RISKS RELATING TO THE PRC**

### **The PRC's economic, political and social conditions and government policies could adversely affect our business**

A significant proportion of our operations are located in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

## RISK FACTORS

While the PRC economy has experienced significant growth in the past 20 years, such growth has been concentrated in certain geographic areas and sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall economy of the PRC, but may also have a negative effect on us. For example, our operating results may be adversely affected by government control over capital investments or changes in applicable tax regulations.

The economy of the PRC has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC are still owned by the PRC government. Many of the reforms are unprecedented or experimental, however, and are expected to be modified from time to time. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. We cannot assure you that the PRC economy will continue to grow or that the PRC government will not regulate our industry in a manner detrimental to our business. Any slowdown in the growth of the PRC economy could have a material adverse effect on our business, financial condition and results of operations.

### **Government control of currency conversion and future movements in exchange rates may restrict our ability to pay dividends in foreign currencies**

We receive substantially all of our PRC-related revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to meet our foreign currency obligations. We need to obtain foreign currency to pay dividends declared, if any, in respect of our Shares and to pay foreign exchange expenses and liabilities, if any.

The PRC government may take measures at its discretion in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our Shareholders if the PRC government restricts access to foreign currencies for current account transactions. In addition, devaluation of the Renminbi could adversely affect the value of, and dividends (if any), payable on, our Shares in foreign currency terms.

Foreign exchange transactions under our capital account continue to be subject to significant foreign exchange controls and require the approval of the SAFE. These limitations could affect our ability to obtain foreign exchange.

## RISK FACTORS

**An outbreak of the highly pathogenic avian influenza caused by the H5N1 virus (“avian flu” or “bird flu”), Severe Acute Respiratory Syndrome (“SARS”) or other contagious disease may have an adverse effect on the economies of certain Asian countries and may adversely affect our results of operations**

During 2004, large parts of Asia experienced unprecedented outbreaks of avian flu which, according to a report of the World Health Organization (“WHO”) in 2004, placed the world at risk of an influenza pandemic with high mortality and social and economic disruption. As of 25 July 2007, the WHO reported a total of 192 fatalities in a total number of 319 laboratory-confirmed cases of avian flu of which 16 fatalities and 25 cases were in the PRC. Currently, no fully effective avian flu vaccines have been developed and there is evidence that the H5N1 virus is evolving so there can be no assurance that an effective vaccine can be discovered in time to protect against the potential avian flu pandemic. In the first half of 2003, certain countries in Asia experienced an outbreak of SARS, a highly contagious form of atypical pneumonia, which seriously interrupted the economic activities and the demand for goods plummeted in the affected regions. There can be no assurance that an outbreak of avian flu, SARS or other contagious disease or the measures taken by the governments of affected countries against such potential outbreaks, will not seriously interrupt our production operations or those of our suppliers and customers, which may have a material adverse effect on our results of operations. The perception that an outbreak of avian flu, SARS or other contagious disease may occur again may also have an adverse effect on the economic conditions of countries in Asia.

**The legal system in the PRC is less developed than in certain other countries and laws may not be interpreted and enforced in a consistent manner**

The PRC legal system is based on written statutes and prior court decisions can only be used as a reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations will involve a degree of uncertainty. Depending on the government agency or how an application or case is presented to such an agency, we may receive less favourable interpretations of laws and regulations than our competitors.

In general, the PRC judiciary is relatively inexperienced in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. Further, it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. Another risk is that the introduction of new PRC laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have a material adverse effect on our prospects, financial condition and results of operations.

## RISK FACTORS

### **Acts of God, acts of war and other disasters could affect our business**

Our business is subject to the general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people of the PRC. Many major cities in the PRC are under the threat of flood, earthquake, sandstorm or drought. Our business, operating results and financial condition may be adversely affected if such natural disasters occur.

Acts of war and terrorist attacks may cause damage or disruption to us, our employees, our distributors and our markets, any of which could adversely impact our revenue, cost of sales, overall results and financial condition. Potential war or terrorist attacks may also cause uncertainty and cause our business to suffer.

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **There has been no prior public market for our Shares**

Prior to the Global Offering, there has been no public market for our Shares. While we have applied to have our Shares listed on the Stock Exchange, we cannot assure you that an active public market for our Shares will develop. The Offer Price of our Offer Shares will be determined by agreement between the Global Coordinator, on behalf of the Underwriters, and us and may not be indicative of prices that will prevail in the trading market. You may not be able to resell your Shares at a price that is attractive to you or at all.

#### **Trading price of our Shares may be volatile which could result in substantial losses for investors purchasing Offer Shares in the Global Offering**

The market price for our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- changes in securities analysts' estimates of our financial performance;
- announcement by us of significant acquisitions, strategic alliances or joint ventures;
- addition or departure of key personnel;
- fluctuations in stock market prices and volume;
- involvement in litigation; and
- general economic and stock market conditions.

## RISK FACTORS

Moreover, in recent years, stock markets in general, and particularly the shares of companies with substantial operations in the PRC, have experienced increasing price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our Shares.

### **Future sales of substantial amounts of our Shares in the public market could have a material adverse effect on the prevailing market price of our Shares**

The market price of our Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market or the issuance of new Shares, or the perception that such sales or issuances may occur. Future sales or perceived sales of substantial amounts of our Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate. In addition, our Shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings.

### **The Parent Company may take actions that conflict with the best interests of our public shareholders**

The Parent Company has executed a non-compete undertaking in our favour that limits the ability of the Parent Group to compete directly or indirectly with any business carried on by our Group. The restrictions in the non-compete undertaking will terminate after the Parent Company ceases to control, directly or indirectly, more than 30% of our issued ordinary share capital. The restrictions in the non-compete undertaking will also terminate on the date on which our Shares are no longer listed on the Stock Exchange. Please refer to the section headed “Relationship with Controlling Shareholder — Independence from Parent Group” in this prospectus. However, in circumstances involving a conflict of interest which is not covered by the non-compete undertaking, given the Parent Group is a listed company and has to act in the best interests of its shareholders, we cannot ensure that the Parent Company will not act in a manner that would benefit the Parent Company to the detriment of the other Shareholders of the Company.

### **Certain facts, forecasts and other statistics with respect to China, the PRC economy and the skincare products and colour cosmetics industry in this prospectus are derived from official government publications and may not be reliable**

Certain facts, forecasts and other statistics in this prospectus relating to China, the PRC economy and the skincare and cosmetics industry have been derived from official government publications. Our Directors have taken reasonable care in the reproduction of such information. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Global Coordinator, the Joint Sponsors, the Underwriters or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy if such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, such statistics may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there

## RISK FACTORS

is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Nonetheless, our Directors have taken reasonable care in compiling and reproducing these facts, forecasts and statistics in this prospectus from our respective official government publications.

In all cases, you should give consideration as to how much weight or importance you should attach to or place on such facts, forecasts or statistics and should not place undue reliance on any of such information and statistics.

**You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any projections, valuations, and other forward-looking information**

Prior to the publication of this prospectus, there have been press articles or other media coverage regarding us and the Global Offering, including those in the Hong Kong Economic Times and the Hong Kong Economic Journal, both on 14 November 2007, and Apple Daily, Oriental Daily News, Sing Tao Daily and South China Morning Post on 22 November 2007. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of such press articles or other media and that such press articles or other media were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us, or of any assumptions underlying such projections, valuations, other forward-looking information or information about our corporate investors, included in or referred to by the media. To the extent that any such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus includes particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

### **THE GLOBAL OFFERING AND THIS PROSPECTUS**

This prospectus is published solely in connection with the Global Offering. For applicants under the Public Offer and the Preferential Offer, this prospectus and the Application Forms contain all the terms and conditions of the Public Offer and the Preferential Offer.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus. Any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Selling Shareholders, the Global Coordinator, the Joint Sponsors, any of the Underwriters, any of their respective directors or any other person involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as at any subsequent time.

### **UNDERWRITING**

The Public Offer is part of the Global Offering comprising the Public Offer of initially 39,000,000 Public Offer Shares and the International Offer of initially 351,000,000 International Offer Shares (including the Reserved Shares to be offered pursuant to the Preferential Offer).

The application for the listing of the Shares is sponsored by the Joint Sponsors. The Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Global Coordinator, on behalf of the Underwriters, agreeing on the Offer Price. The Global Offering is managed by the Global Coordinator.

If, for whatever reason, the Offer Price is not agreed between the Global Coordinator and us (for ourselves and on behalf of Selling Shareholders) by 7:00 p.m., 7 December 2007, the Global Offering will not become unconditional and will lapse immediately. Further information about the Hong Kong Underwriters and the underwriting arrangements is set out in the section headed "Underwriting" in this prospectus.



## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **RESTRICTIONS ON THE USE OF THIS PROSPECTUS**

No action has been taken to permit a public offer of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption from applicable securities laws. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC.

### **LISTING**

We have applied to the Listing Committee of the Stock Exchange for the granting of listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme and any Shares which may be issued under the Capitalisation Issue). Our PRC legal advisers, Guangdong Harbour Law Firm, have advised us that we are not required to obtain the approval of the CSRC or other PRC governmental or regulatory authorities in respect of the Listing and the Global Offering. In particular, our PRC legal advisers, Guangdong Harbour Law Firm, have advised us that the Provisions on the Takeover of Domestic Enterprises by Foreign Investors are not applicable to the Listing and the Global Offering.

No part of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

### **ELIGIBILITY FOR CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading day after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **HONG KONG REGISTER**

All Shares issued by us pursuant to applications made in the Public Offer will be registered on our branch register of members to be maintained in Hong Kong. Our principal register of members will be maintained by our Principal Share Registrar in the Cayman Islands.

### **STAMP DUTY**

Dealings in the Shares registered on our Hong Kong branch register will be subject to Hong Kong stamp duty. Please refer to the paragraph headed “Taxation of holders of Shares” in Appendix VI to this prospectus.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in, our Shares, you should consult an expert.

We emphasise that none of the Global Coordinator, the Joint Sponsors, the Underwriters, the Selling Shareholders or us, any of our or their respective directors, officers nor any other person involved in the Global Offering accepts responsibility for your tax affairs or liability resulting from your subscription for, purchase, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

### **STABILISATION AND OVER-ALLOTMENT**

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price. In connection with the Global Offering, the Stabilising Manager, on behalf of the International Underwriters, may over allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. The stabilisation period is expected to expire on 6 January 2008.

Further details with respect to stabilisation and the Over-allotment Option are set out in the section headed “Structure of the Global Offering — The Over-allotment Option” and “Structure of the Global Offering — Stabilising Action” in this prospectus.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **PROCEDURE FOR APPLICATION**

The application procedure for the Public Offer Shares is set out in the section headed “How to Apply for Public Offer Shares and Reserved Shares” in this prospectus and on the relevant Application Forms.

### **CONDITIONS OF THE PUBLIC OFFER**

Details of the conditions of the Public Offer are set out in the section headed “Structure of the Global Offering — Conditions of the Public Offer” in this prospectus.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Public Offer and the International Offer, including their respective conditions, and the Over-allotment Option, are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **ROUNDING**

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
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**SELLING SHAREHOLDERS**

<b>Name</b>	<b>Address</b>	<b>Number of Sale Shares</b>
Parent Company	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands	26,000,000 Shares
Cristal Marketing	31 New Henry House 10 Ice House Street Central Hong Kong	39,000,000 Shares

**DIRECTORS**

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Judy Lau	House A8 16 South Bay Road Hong Kong	Chinese
Wong Wai Kwan Connie	20th Floor, Flat A, Block 2 Sherwood Court Kingswood Villas Tin Shui Wai New Territories Hong Kong	Chinese
Lui Wai Mui Grace	Flat E, 24th Floor, Tower 15 South Horizons Ap Lei Chau Hong Kong	Chinese
<i>Non-executive Director</i>		
Lau Jim Jin-wei	Flat 3B Evergreen Garden 18 Shouson Hill Road Hong Kong	Chinese

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
--

<b>Name</b>	<b>Residential address</b>	<b>Nationality</b>
<i>Independent non-executive Directors</i>		
Tam Pei Qiang	Flat H, 6th Floor, Block 3 Charming Garden 16 Hoi Ting Road Mong Kok Kowloon Hong Kong	Chinese
Lee Tin Chak Daniel	4B Celestial Garden 5 Repulse Bay Hong Kong	British
Xie Ming Quan	Room 601 10 Jin Ying Xi Yi Street Tian He District Guangzhou PRC	Chinese

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### PARTIES INVOLVED

**Sole Global Coordinator,  
Sole Bookrunner and Underwriter**

Macquarie Securities Limited  
19th Floor, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

**Joint Lead Managers**

Macquarie Securities Limited  
19th Floor, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

ICEA Securities Limited  
26th Floor, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

**Joint Sponsors**

Macquarie Securities Limited  
19th Floor, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

ICEA Capital Limited  
26th Floor, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

**Legal advisers to the Company**

*as to Hong Kong law:*  
Chiu & Partners  
41st Floor, Jardine House  
1 Connaught Place  
Hong Kong

*as to PRC law:*  
Guangdong Harbour Law Firm  
17th Floor, Securities Building  
5020 Binhe Road  
Shenzhen PRC

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

*As to Cayman Islands law:*

Conyers Dill & Pearman  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

**Legal advisers to the Joint Sponsors  
and Underwriters**

*as to Hong Kong and U.S. law:*

Sidley Austin  
39th Floor, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

*as to PRC law:*

Jingtian & Gongcheng  
15th Floor, The Union Plaza  
20 Chaoyangmenwai Dajie  
Chaoyang District  
Beijing 100020  
PRC

**Auditors and reporting accountants**

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
35th Floor, One Pacific Place  
88 Queensway  
Hong Kong

**Property valuers**

BMI Appraisals Limited  
Suite 11-18  
31st Floor, Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

**Receiving bankers**

Bank of Communications Co., Ltd. Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

Standard Chartered Bank (Hong Kong) Limited  
15th Floor, Standard Chartered Tower  
388 Kwun Tong Road  
Kwun Tong  
Hong Kong

## CORPORATE INFORMATION

<b>Registered Office</b>	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Place of business in Hong Kong</b>	3301, 3401-06 Office Tower Convention Plaza 1 Harbour Road Wanchai Hong Kong
<b>Company Secretary</b>	Ng Yuk Yeung <i>FCCA CPA CFA</i>
<b>Qualified Accountant</b>	Ng Yuk Yeung <i>FCCA CPA CFA</i>
<b>Authorised Representatives</b>	Wong Wai Kwan Connie 20th Floor, Flat A, Block 2 Sherwood Court Kingswood Villas Tin Shui Wai New Territories Hong Kong  Ng Yuk Yeung Flat D, 31st Floor Tower 2, Sham Wan Towers Ap Lei Chau Hong Kong
<b>Members of the Audit Committee</b>	Tam Pei Qiang ( <i>Chairman</i> ) Lee Tin Chak Daniel Xie Ming Quan
<b>Members of the Remuneration Committee</b>	Lee Tin Chak Daniel ( <i>Chairman</i> ) Wong Wai Kwan Connie Tam Pei Qiang
<b>Members of the Nomination Committee</b>	Lee Tin Chak Daniel ( <i>Chairman</i> ) Judy Lau Tam Pei Qiang



## CORPORATE INFORMATION

**Cayman Principal share registrar and transfer office**

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
Grand Cayman KY1-1107  
Cayman Islands

**Hong Kong share registrar and transfer office**

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

**Compliance adviser**

ICEA Capital Limited  
26th Floor, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

**Principal bankers**

Bank of Communications Co., Ltd. Hong Kong Branch  
20 Pedder Street  
Central  
Hong Kong

Public Bank (Hong Kong) Ltd.  
Public Bank Centre  
120 Des Voeux Road Central  
Hong Kong

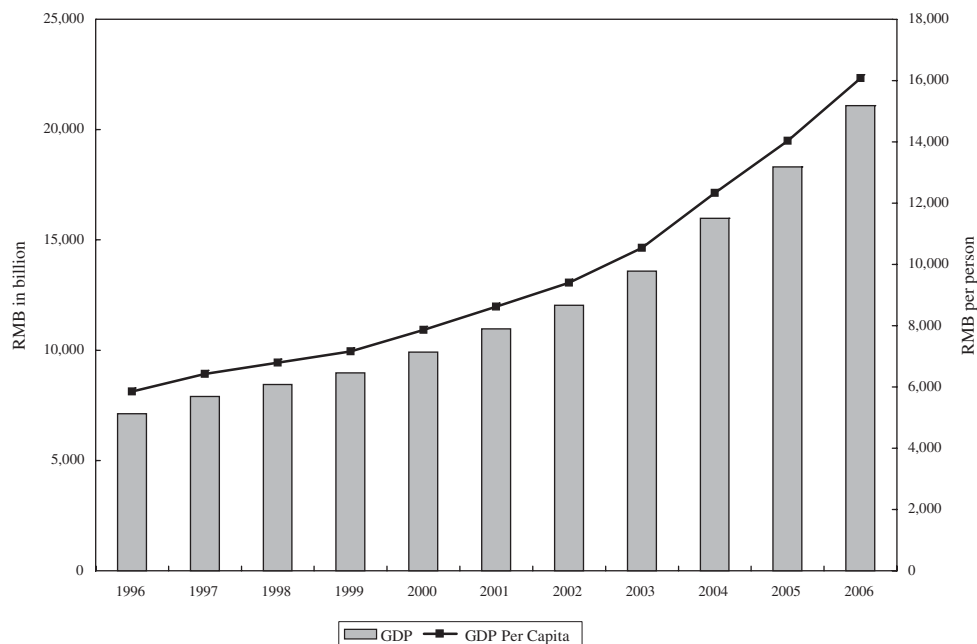
DBS Bank (Hong Kong) Limited  
16th Floor, The Center  
99 Queen's Road Central  
Hong Kong

## INDUSTRY OVERVIEW

This section contains information and statistics relating to the Chinese economy and the industry in which we operate. We have derived such information and data partly from publicly available official government publications which have not been independently verified by us, the Global Coordinator, the Joint Sponsors, the Underwriters, the Selling Shareholders or any of their respective affiliates or advisers. Our Directors have taken reasonable care in the reproduction of such information. The information in such official government publications may not be consistent with the information compiled within or outside China. We make no representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied on. We have taken such care as we consider reasonable in the reproduction and extraction of such information.

### THE ECONOMY OF THE PRC

The PRC economy has grown significantly since the PRC government introduced economic reforms in the late 1970's. China's accession to the World Trade Organization, or the WTO, in 2001 has further accelerated the reform of the PRC economy. In the past 10 years, China's GDP has increased from approximately RMB7,117.7 billion in 1996 to approximately RMB21,087.1 billion in 2006 at a compound annual growth rate, or CAGR, of approximately 11.5%. In 2006, China's GDP increased approximately 14.7% as compared to 2005. The chart below illustrates the growth of China's GDP and GDP per capita during the period from 1996 to 2006.

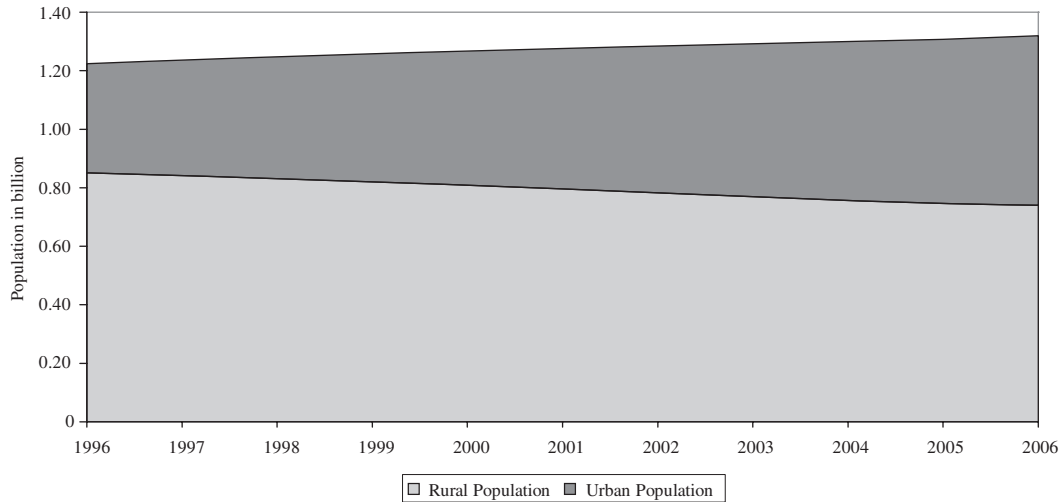


Source: China Statistical Yearbook 2007

With rapid economic growth in the PRC, urbanisation has intensified and the urban population increased. According to the National Bureau of Statistics, the total urban population of the PRC increased by approximately 54.7% during the period between 1996 and 2006, from around 373 million people (equivalent to approximately 30.5% of the total population of the PRC) in 1996 to about 577 million people (equivalent to approximately 43.9% of the total population of the PRC) in 2006. Statistics indicate an

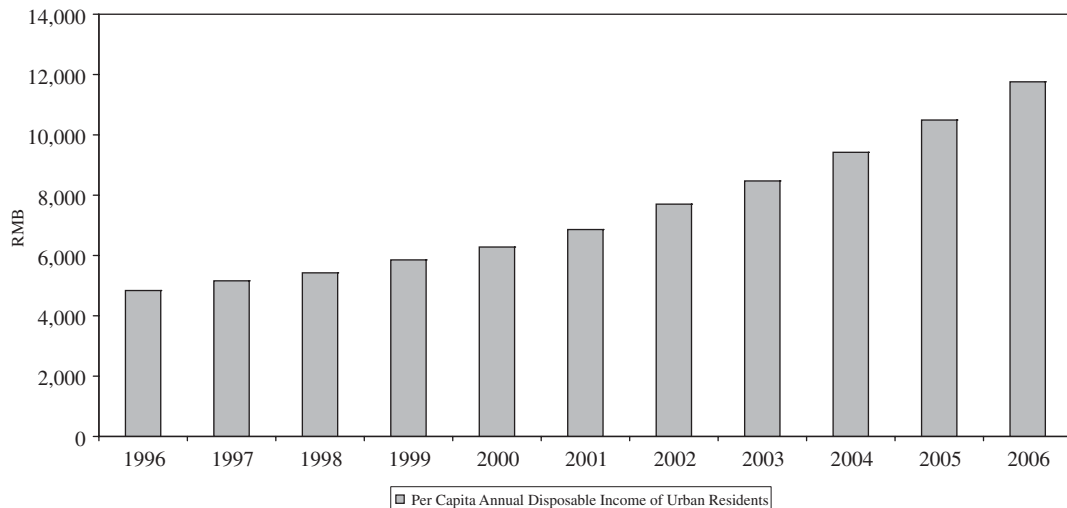
## INDUSTRY OVERVIEW

annual increment in urbanisation rate of around 1.3% over the past 10 years. The urbanisation rates from 2002 to 2006 were 39.1%, 40.5%, 41.8%, 43.0% and 43.9%, respectively. The chart below illustrates the growth in the urban population in the PRC from 1996 to 2006.



Source: China Statistical Yearbook 2007

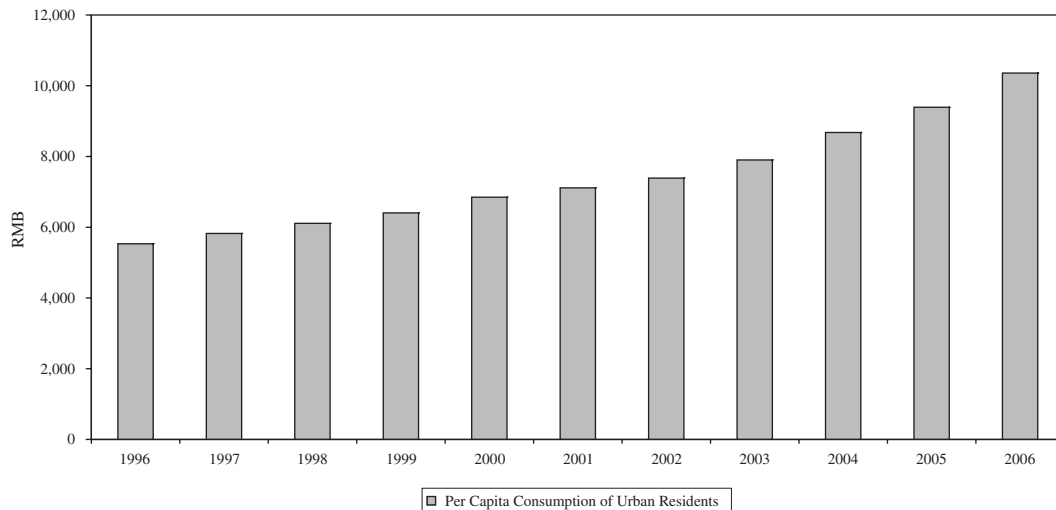
Strong economic growth and rapid urbanisation in the PRC have resulted in a larger labour force earning higher wages and boosted the disposable income level of Chinese individuals. Disposable income directly affects household expenditures, including retail consumption. The per capita annual national disposable income of urban residents in the PRC has increased from approximately RMB4,839 in 1996 to RMB11,760 in 2006, representing a CAGR of 9.3%. The chart below illustrates per capita annual disposable income of urban residents in China from 1996 to 2006.



Source: China Statistical Yearbook 2007

## INDUSTRY OVERVIEW

The level of disposable income directly affects people's consumption and purchasing power. Consumption for an average Chinese individual in 1996 was only RMB2,789 and it grew to RMB6,111 in 2006. The increase in consumption for urban residents is particularly robust. The chart below illustrates per capita consumption of urban residents in China from 1996 to 2006.



Source: China Statistical Yearbook 2007

## RETAIL INDUSTRY IN THE PRC

Higher wages and increasing affluence of the PRC population have led to changes in China's retail industry.

According to Euromonitor International<sup>1</sup>, the number of non-grocery retail outlets increased from approximately 319,000 in 2000 to approximately 652,000 in 2005. Historically, income was spent primarily on necessities, but in recent years, Chinese consumers are increasingly directing their income towards the purchasing of lifestyle-enhancing products and services, such as retail items including apparel, footwear, electronics and personal care products.

China's sizeable and increasingly affluent population presents exciting opportunities for all economic entities involved in the manufacture, distribution and retail of consumer products in the PRC. The total retail sales of consumer goods grew continuously in the past decade, from approximately RMB2.5 trillion in 1996 to RMB7.6 trillion in 2006.

*Note 1:* Euromonitor International is a privately-owned company with offices in London, Chicago, Singapore, Shanghai and Vilnius, specialising in providing independent business intelligence on industries, countries and consumers. Euromonitor is independent from our Group. The information from Euromonitor International is not public information. The information has been prepared by Euromonitor International in its ordinary course of business, and was not commissioned by our Group.

## INDUSTRY OVERVIEW

### SKINCARE PRODUCTS AND COLOUR COSMETICS MARKET IN THE PRC

With the rapid economic growth in the PRC, the PRC population is generally enjoying greater prosperity as a result of higher levels of personal disposable income. These consumers became increasingly aware of grooming and appearance as factors used to denote status. Chinese consumers are gradually adopting changing attitudes to personal appearance. A well-groomed appearance is regarded as a strong aid to career success. These trends had a beneficial impact on the Chinese cosmetics and toiletries industry.

Accompanying China's economic growth, there has been a rise in the proportion of women in China's workforce, which has a positive impact on the cosmetics and toiletries industry in the PRC. Official promulgated government policies such as Program for the Development of Chinese Women (2001-2010) actively encourage women participation in the work force. Between 2000 and 2004, female representation in the workforce increased from 101 million to 114 million representing a CAGR of 3.07%.

Increasingly women in China are enjoying well-paid jobs and many put off marriage and children in favour of careers progression. This results in an expanding consumer base for cosmetics and toiletries products made up of affluent Chinese women with increasingly sophisticated taste and enhanced purchasing power. With globalisation, Chinese women are becoming more aware of cosmetics and toiletries products via mediums such as fashion magazines and television. In view of their new outlook and increased career opportunities, many Chinese women are more willing to invest in cosmetics and toiletries products, including luxury international brands.

Rising income, increasing proportion of women in the workforce, changing attitudes to personal grooming and growing awareness of grooming trends are the fundamental drivers of China's cosmetics and toiletry industry. According to Euromonitor International, China's cosmetics and toiletry industry reached RMB95 billion in retail sales in 2006. Skincare products and colour cosmetics account for the largest shares of the PRC cosmetics and toiletries industry with 31% and 11% of the market respectively. In addition, China's second and third tier cities are yet to be targeted by multinational brands. Compared to overseas markets such as the United States, there is considerable growth potential for China's skincare and colour cosmetics market.

### COMPETITION

China's skincare products and colour cosmetics market industry is highly competitive and the overall market remains very fragmented without a clear set of dominant players. For our skincare products and colour cosmetics, we compete with international brands with a presence in China as well as Chinese brands. Our main competitors are skincare products and colour cosmetics producers with a medium to high price point for their products. We compete principally on brand image, reputation, price, quality, product packaging, product range, customer service and distribution. We believe due to factors such as initial capital investment in plant and equipment, technical and operational know-how, product development expertise, manufacturing capacity, cost and time required to build brand awareness and establish a distribution network, the barriers to entry into China's colour cosmetics and skincare market are high. As an integrated manufacturer of skincare products and colour cosmetics, we seek to distinguish ourselves from our competitors by using a special biological ingredient manufactured by us, hEGF, in our products.

## INDUSTRY OVERVIEW

China's ODM and OEM market for skincare products and colour cosmetics sourcing is dominated by Chinese manufacturers. It is highly competitive and the overall market remains very fragmented without a clear set of dominant players. Exports account for only a small fraction of total ODM and OEM production in China, but have been growing in recent years as overseas customers such as retailers and branded cosmetics manufacturers increased ODM and OEM sourcing from China. Our main competitors are other Chinese ODM and OEM manufacturers. We compete principally on price, quality, production capability, product range, product design and development skills, customer service and delivery. We believe the main barriers to entry into China's ODM and OEM market for skincare products and colour cosmetics include established customer relationships, technical and operational know-how, product development expertise and manufacturing capacity. As an integrated manufacturer of ODM and OEM skincare products and colour cosmetics, we seek to distinguish ourselves from our competitors on quality, pricing and customer service.

In order to maintain their market positions, brand names are focusing on product diversification and providing customers with a wider range of skincare products and colour cosmetics. Companies are also expanding into men's grooming products as the male population in the PRC is increasingly interested in skincare products as a result of China's urbanisation and growing awareness of male grooming trends overseas.

## REGULATIONS

### SKINCARE PRODUCTS AND COLOUR COSMETICS REGULATORY SYSTEM IN THE PRC

The laws regulating the production, distribution and sale of skincare products and colour cosmetics in the PRC include the Regulation of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例), Regulations Concerning the Hygiene Supervision Over Cosmetics (化妝品衛生監督條例), Implementation Rules of the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法實施條例), the Standardisation Law of the PRC (中華人民共和國標準化法), Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法), Law of the People's Republic of China on Evaluation of Environmental Effects (中華人民共和國環境影響評價法), Regulation of Environmental Protection of Construction Works in Guangdong Province (2004 Edition) (廣東省建設項目環境保護管理條例) (2004年修正本). Certain provisions of the above laws and regulations relating to the skincare products and colour cosmetics industry are set out below.

#### **Regulation of the PRC on the Administration of Production Licence for Industrial Products (中華人民共和國工業產品生產許可證管理條例) and its Measures (實施辦法)**

Subject to Regulation of the PRC on the Administration of Production Licence for Industrial Products (the "Regulation"), which is issued by the State Council of the PRC and effective since 1 September 2005, manufacturers of certain industrial products must first obtain a production license. According to the Catalog of Production Licence Products of the State (the "Catalog") issued on 9 May 2004 by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC ("GAQSIQ"), manufacturers should obtain a production licence for the production of skincare products and colour cosmetics from the provincial administration authorities responsible for issuing such licences within the jurisdiction where the manufacturer is located (the "Administrative Authorities"). The Regulations also stipulate that no manufacturer shall manufacture the products listed in the Catalog without first obtaining the necessary production licence. The Regulations further provide that an enterprise or individual shall not sell or use the products without holding a production licence. The term of a production licence is for five years and the manufacturer shall apply to the Administrative Authorities within six months before the expiry date of the production licence for licence renewal. If a manufacturer manufactures products listed in the Catalog without obtaining a production licence, the Administrative Authorities will order it to cease production, confiscate the unlawfully produced products and the manufacturer shall be subject to penalty of no more than three times of the value of the products unlawfully produced. Any profit from the sales of such illegal products shall be confiscated. The producer violating the criminal law is also liable to criminal charges.

According to the Measures for the Implementation of Regulation of the PRC on the Administration of Production Licence for Industrial Products (the "Measures"), effective since 1 November 2005 and issued by GAQSIQ, enterprises which entrusts or is entrusted to process the products administrated by the production licence shall file in the provincial licence administration office. The enterprise which entrusts the processing arrangement shall perform its filing obligations and shall not unilaterally change the terms of the processing arrangement contract and the product labeling method. If the entrustor or the trustee does not file or if the entrustor changes the product labeling method, the quality and technical supervision bureau at county level or above shall order it to correct the breach within a set period and will collect the penalty of no more than RMB30,000 from the party in breach. If a breach is not corrected within the stipulated period, the production licence for the entity in breach will be revoked.

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### **Regulations Concerning the Hygiene Supervision Over Cosmetics (化妝品衛生監督條例) and its Implementation (實施細則)**

According to Regulations Concerning the Hygiene Supervision Over Cosmetics products (“Supervision”) issued by the Ministry of Health of the PRC effective from 1 January 1990, cosmetics manufacturers shall obtain a hygiene licence, which is approved and issued by the health administration department at the provincial, autonomous regional or municipal level of the PRC. The term of validity of the hygiene licence is four years and it must be renewed every two years after the said four years. No manufacturer in the PRC is allowed to engage in the production of skincare products and colour cosmetics without a hygiene licence. Unlicensed manufacturers are ordered to cease production and their products and illegal earnings shall be confiscated and a fine up to three to five times the illegal profits shall be imposed.

According to Implementation Rules of the Regulations Concerning the Hygiene Supervision Over Cosmetics issued by the State Council of the PRC effective from 27 March 1991, an application to renew a hygiene licence shall be made three months before expiry. Special cosmetics substances used in hair nourishment, hair-dye, hair perm, hair removal, breast enlargement, deodorant, fading cream and anti-sunburn lotion are subject to production hygiene safety evaluation before market launch. Production of special cosmetics products shall be approved by Health Administration of State Council before production. Approved products will be granted a special cosmetics approval certificate, which is renewed every four years. Holders of the approval certificate need to re-apply to provincial Health Administrations together with the original approval documents and other relevant documents four to six months before the expiry date. Provincial Health Administration will submit these documents to the Health Administration Department of the State Council of the PRC, which will grant approval and approval number. Producers shall provide relevant documents and samples in order to produce non-special cosmetics and shall file to provincial Health Administration within two months after market launch. According to regulations, if manufacturers produce special cosmetics without approval number, or use forbidden materials in cosmetics or unauthorised new materials, such products will be confiscated and the manufacturers will be fined three to five times the illegal profits. In addition, such manufacturers may be ordered to stop production and their hygiene certificate may be cancelled. The confiscated products will be destroyed under the supervision of the Health Administration.

### **Implementation Rules of the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法實施條例)**

According to Implementation Rules of the Regulations for the Implementation of the law of the PRC on Import and Export Commodity Inspection issued by the State Council of the PRC effective from 1 December 2005, registration is required by cosmetics manufacturers engaged in the import and export of skincare products and colour cosmetics. Before importing skincare products and colour cosmetics, such skincare products and colour cosmetics need to be inspected by Entry-Exit Inspection and Quarantine Administration to determine if the labels are in compliance with requirements of laws and administrative regulations and whether they are true and accurate, and obtain a certificate of inspection signed by GAQSIQ or its authorised Entry-Exit Inspection and Quarantine Administration. Import and export of skincare products and colour cosmetics require hygiene registration. Any un-registered cosmetics shall be stopped from import or export and illegal revenue will be confiscated, and a fine of 10% to 50% of the



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illegal profit will be imposed. If manufacturers which have already obtained registration for import and export are found to be in violation of any applicable requirements, GAQSIQ or Entry-Exit Inspection and Quarantine Administration will order these manufacturers to rectify the breach. If rectification does not meet requirements, the manufacturer's hygiene registration certificate will be confiscated.

Our Group manufactures and sells our products within the PRC. For ODM and OEM customers, our Group would deliver the finished goods to them (or to their designated agents) in the PRC and the customers are responsible for complying with the export requirements for exporting the goods to overseas markets. Please refer to the section headed "Business — Permits, Licences and Regulatory Compliance" in this prospectus.

### **The Standardisation Law of the PRC (中華人民共和國標準化法) and its Implementation (實施條例)**

According to the Standardisation Law of the PRC promulgated by the Standing Committee of the National People's Congress effective from 1 April 1989, China encourages enterprises to formulate their enterprise standards which are more stringent than the equivalent national or trade standards, to be used in these enterprises. Where, in the absence of both national and trade standards for products manufactured by an enterprise, standards for the enterprise shall be formulated by the enterprise to serve as the criteria for the organisation of production. An enterprise's standards for its products shall be filed with the Standardisation Administration Department and other competent administrative authorities under the local government. National standards and trade standards shall be classified into compulsory standards and voluntary standards. Those for safeguarding personal health and safety, and protection of property are compulsory standards, the rest shall be voluntary standards. Compulsory standards must be complied with. It is prohibited to produce, sell or import products that do not satisfy the compulsory standards. The party that produces, sells or imports products that do not conform to the compulsory standards shall be dealt with according to relevant laws and administrative rules and regulations. In the absence of such prescriptions, the breaching party's products and unlawful proceeds shall be confiscated and it shall be concurrently fined by the Administrative Authorities for Industry and Commerce; there will be criminal liabilities if serious harm is caused, and the person directly responsible shall be liable for criminal responsibility.

According to Regulations for the Implementation of the Standardisation Law of the PRC promulgated by the State Council of the PRC on 6 April 1990, enterprise and individual that are engaged in research, production and operation must strictly implement compulsory standards. The products which do not comply with compulsory standards may not be allowed to be produced, marketed or imported. For enterprises failing to file standards for products to higher authorities according to the relevant stipulations, they be ordered to correct their failures within a set time-limit determined by the administrative departments in charge of standardisation or the relevant administrative authorities within their respective competence, which may also circulate notices of criticism or give administrative sanctions to the persons and/or enterprises held responsible for the violations. Enterprises that produce products which fail to meet compulsory standards shall be ordered to stop production and products in violation will be confiscated and destroyed under supervision or subjected to necessary technical treatment. A fine ranging from 20% to 50% of the total value of such goods shall be imposed on the enterprises and a fine up to RMB5,000 on the persons held responsible. Those who sell goods which are not up to the compulsory standards shall be

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ordered to stop their sales and recover the goods which have already been sold within a set time-limit. All the goods should be destroyed under supervision or subjected to necessary technical treatment. The illegal gains shall be confiscated and a fine ranging from 10% to 20% of the total value of the goods shall be imposed on the units and a fine of RMB5,000 or less on the persons held responsible.

### **Environmental Protection Law of the People's Republic of China** 《中華人民共和國環境保護法》

In accordance with the Environmental Protection Law of the People's Republic of China promulgated by the Standing Committee of the National People's Congress on 26 December 1989, the responsibility of environmental protection shall be borne by all enterprises and individuals in China. The Environmental Protection Administration Department under the State Council is responsible for the supervision and management of environmental protection in China. The environmental protection department at the county level or above is responsible for the supervision and management of environmental protection under their respective jurisdictions. Installations of environmental protection facilities in relation to construction works must be designed, built and commissioned together with the principal part of the construction work. Upon the completion of the construction work for environmental protection facilities, inspections will be made by the relevant environmental protection department, and operation can only commence following its approval. Failure to comply could result in the environmental protection department ordering business operations to be suspended, and the enterprise in breach be subject to fines. Enterprises discharging wastes are required to be registered with the relevant environment protection departments, and if it is in excess of the prescribed national or local discharge standards shall be required to pay for excessive discharge of waste and assume the responsibility for eliminating and controlling the pollution. Failure to pay the fees, depending on the circumstances of each case, could result in the infringing enterprise be issued with a warning or fined by the appropriate environmental protection administration agencies. If an enterprise or institution has caused severe environmental damage, it shall be required to eliminate and appropriately manage the pollution within a stipulated period of time. Failure to comply could result in the enterprise being fined or ordered to suspend or terminate its business operations depending on the severity of the environmental regulation breached.

### **Law of the People's Republic of China on Evaluation of Environmental Effects** 《中華人民共和國環境影響評價法》

In accordance with Law of the People's Republic of China on Evaluation of Environmental Effects (effective from 1 September 2003) promulgated by of the Standing Committee of the National People's Congress, a system for evaluating the environment effects of construction works was adopted on a nationwide basis. For the construction of any work that would potentially have a negative environmental impact, a qualified technical services institution needs to be engaged to evaluate the environmental impact, and document its findings in a formal report. The report is to be submitted to the relevant environmental protection department for review. In cases where the relevant construction work is carried out in an industry where there is an industry regulatory authority, such as the skincare products and colour cosmetics industry, the aforementioned environmental impact report should also be reviewed by that industry regulatory authority before the review by the environmental protection department. Construction work may not commence without first obtaining the necessary approvals. In cases where an enterprise commences

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construction work without obtaining the necessary approvals, the relevant environment protection department would order the construction work to be suspended until the enterprise has obtained the necessary approvals within a stipulated timeframe. Failure to do so could result in the enterprise being fined not less than RMB 50,000, but not more than RMB 200,000.

### **Regulations of Environmental Protection of Construction Works in Guangdong Province (2004 Edition) 《廣東省建設項目環境保護管理條例 (2004年修正本)》**

In accordance with Regulations of Environmental Protection of Construction Projects in Guangdong Province (2004 Edition) issued by the Standing Committee of the National People's Congress of Guangdong Province and implemented since 1 September 1994 (hereinafter referred as "Guangdong Regulations"), construction work which is likely to result in the creation of waste water, waste gas, slag, dust, noise, vibration, electro-magnetic radiation, poisonous substances, harmful substances, and other substances which is likely to pollute the environment is subject to a system of disclosure and approval. After the construction work is completed, its waste emissions must satisfy the requirements of the applicable national or local standards and other applicable environmental protection related laws, rules and regulations. The Guangdong Regulations also provide that during the construction and initial testing phase of the construction works, a temporary waste emission permit is required to be obtained. After the commencement of operations, a construction for environmental protection facilities completion report needs to be filed with the appropriate environmental protection department and a waste emission license obtained within a stipulated period. Failure to comply could result in the environmental protection department ordering compliance within a certain time frame. If compliance is not demonstrated as required, a fine, determined with reference to the total construction investment, of between RMB5,000 to RMB200,000 will be imposed.

As confirmed by our PRC legal advisers, Guangdong Harbour Law Firm, our Group has complied with all relevant laws and regulations, and obtained all permits, approvals, certificate and licences for the business operation of our Group, and complied with all the PRC laws and regulations in relation to environmental protection which are applicable to our Group's operations.

## HISTORY AND REORGANISATION

### HISTORY AND DEVELOPMENT OF THE GROUP

#### *Licensing of hEGF technology*

The development of our Group started with our discussion with three individuals who were then professors of the Hong Kong University of Science and Technology (“HKUST”), who are independent third parties, for the collaboration on the development of hEGF in November 2000. At that time, the technology in relation to hEGF was owned by Bio-Click, an independent third party. Our Directors confirm that Vivid King Limited, Wong Wan Keung Raymond, Cue Nelson and Hong Kong University of Science and Technology R and D Corporation Limited, all being the registered owners of Bio-Click, do not have any past or present relationship with our Group, its shareholders, senior management and any of their respective associates except for the arrangement involving the provision of technical support at our production facilities by Wong Wan Keung Raymond and Cue Nelson as described in the section headed “History and Reorganisation” in this prospectus. Recognising the market potential of skincare products and colour cosmetics and the effect of hEGF, the management of our Group decided to use hEGF in February 2001 as our active ingredient in the production of skincare products. At that time, our Group had not designed any brand name for our skincare products.

Our Directors confirm that there are no other on-going cooperation arrangements between our Group and the three professors of HKUST.

On 11 September 2001, an agreement for transfer of technology (the “Original Agreement”) was entered into between High Billion and Bio-Click pursuant to which the technology know-how in relation to hEGF was licensed from Bio-Click to High Billion for a period of four years which started to run on 6 November 2002, the date on which High Billion shall have raised, issued or rendered the first invoice for the sale of hEGF or products with hEGF, after which High Billion will have the right to use the technology in relation to hEGF to manufacture and sell hEGF related products on an on-going basis. At that time, High Billion was not owned by our Group and was owned by Mr. Huang Baiqing and Mr. Lau Kwok Yiu, who are independent third parties. The licence granted by Bio-Click to High Billion was non-exclusive. No hEGF has ever been supplied by Bio-Click to our Group. Bio-Click is not obliged to inform us if it licenses the right of its technology know-how to any other third party. However, to the best knowledge of our Directors, Bio-Click has not granted such right to any third party other than High Billion.

According to the Original Agreement, the parties thereto agreed, inter alia, as follows:

- (a) Bio-Click shall grant to High Billion (i) a non-exclusive right and licence to the technical information and know-how and to manufacture hEGF within the territories of the PRC in accordance with the processes, systems and methods of working which have been developed or acquired by Bio-Click for the extra-cellular production and purification of hEGF (“Processes”) and to incorporate such hEGF in the production of medical, cosmetic, skincare and personal care products of all kinds; and (ii) a non-exclusive right and licence to sell hEGF manufactured in accordance with the Processes using the technical information and the products which hEGF has been incorporated;

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- (b) until the installation and satisfactory operation of the plant and commencement of extra-cellular production of pure hEGF by High Billion, Bio-Click shall supply High Billion with hEGF at HK\$200,000 per gramme;
- (c) High Billion shall pay Bio-Click (i) HK\$300,000 upon execution of the Original Agreement; (ii) HK\$200,000 upon commencement of production of hEGF; (iii) HK\$300,000 upon achievement of the agreed minimum output (defined as a certain quantity per production run) of hEGF as stipulated under the Original Agreement; (iv) during the continuance in force of the Original Agreement, a sum equal to the percentages as agreed under the Original Agreement for sale of products with hEGF and sale of pure hEGF which shall be calculated and payable quarterly; and (v) HK\$200,000 per gramme for any hEGF supplied by Bio-Click;
- (d) the term of the Original Agreement shall continue for a period of four years from the date on which High Billion shall have raised, issued or rendered the first invoice for the sale of hEGF or products with hEGF incorporated. At the end of the said four years, which fell on 5 November 2006, High Billion shall be entitled to continue to use the technical information to manufacture hEGF and to sell hEGF and products with hEGF incorporated on an on-going basis and at no fee payable to Bio-Click; and
- (e) the Original Agreement shall be terminated if certain condition occurs, including, breach of the Original Agreement by either party, insolvency, cessation of business and material adverse change of financial position of either party.

In order to use the technology in relation to hEGF to manufacture and sell hEGF related products, our Group acquired the entire issued share capital of High Billion from Huang Baiqing and Lau Kwok Yiu, who are independent third parties, in October 2001 for a consideration of HK\$20 million. Our Directors confirm that there is no past and present relationship between the previous owners of High Billion and us. Having made all reasonable enquiries, our Directors confirm that the previous owners of High Billion on the one part and Bio-Click and its owners on the other part do not have any relationship, whether past or present, other than the business relationship arising from the entering into of the Original Agreement and the related transactions.

In arriving at the consideration for HK\$20 million, our Group then took into account the net asset value of High Billion and also a business valuation report prepared by an independent firm of valuers, who then gave a fair market value of High Billion as at 30 September 2001 to be HK\$21.43 million. Our Group then chose to acquire High Billion instead of entering into another licence agreement with Bio-Click in order to minimise level of competition from the existing licensee (i.e. High Billion). Our Directors believe that had our Group entered into a separate licence agreement with Bio-Click, our Group would have been subject to similar terms as provided in the Original Agreement. These terms include payment of fees based on Bio-Click's supply of hEGF at HK\$200,000 per gramme plus certain sum calculated based on the sale of products with hEGF and sale of pure hEGF, which sums could be of a multitudinous amount when our Group's use of hEGF grows significantly. As the technology owned by Bio-Click is not patented and the licence granted to our Group is non-exclusive, Bio-Click was agreeable to signing the Supplemental Deed (as defined below) and waiving the other fees payable under the Original Agreement. Further, save for the continuance of the grant of the non-exclusive licence to our Group, Bio-Click was released from all its other rights and obligations under the Original Agreement.

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After the acquisition of High Billion in 2001, over a time period of a few months, the three professors of HKUST provided technical support at our production facilities by supervising and monitoring the production of hEGF so as to ensure that our Group has attained the know-how for production of hEGF.

On 14 January 2003, a supplemental deed (“Supplemental Deed”) was entered into between Bio-Click and High Billion, pursuant to which the parties thereto have agreed as follows:-

- (i) the grant of licence by Bio-Click to High Billion shall continue to have full force and effect for the duration set out in the Original Agreement, which expiry date fell on 15 November 2006;
- (ii) The Supplemental Deed does not contain any term of expiration or termination. As such, neither Bio-Click nor High Billion has the right to terminate the Supplemental Deed unilaterally;
- (iii) save and except the continuance of the licence as set out in the Original Agreement, which shall be on an on-going basis, all the terms and conditions of the Original Agreement shall have no further force and effect from the date of the Supplemental Deed and that the respective rights and obligations of the parties under the Original Agreement are waived, discharged, cancelled and released in favour of each other;
- (iv) Bio-Click acknowledged receipt of payment of HK\$300,000 from High Billion (as set out in paragraph (c)(i) of the terms of the Original Agreement above) and waived all other payment payable by High Billion under the Original Agreement (including without limitation the fee as summarised in paragraph (c)(ii)-(iv) of the terms of the Original Agreement above).

As Bio-Click has waived all payment payable by High Billion under the Original Agreement, no fee has been paid by our Group for the licence during the Track Record Period. Under the Original Agreement and the Supplemental Deed, there is no fee payable by our Group for the continued use of the technology after the four-year period. Our Directors are of the view that the risks associated with the termination of the licence under the Original Agreement, as supplemented and amended by the Supplemental Deed, is minimal. Please refer to the section headed “Risk Factors — Risks Relating to Our Business” in this prospectus.

The technology know-how in relation to hEGF under the Original Agreement has never been used by Bio-Click or its shareholders for commercial production of any products. Our Group is only licensed to use the technical information and know-how to manufacture hEGF under the Original Agreement, as supplemented and amended by the Supplemental Deed, and it does not own such technical information and know-how.

In 2001, our Group started negotiating with Cosme-Tech, a French cosmetics manufacturing company, on the appointment of Cosme-Tech as our Group’s OEM manufacturer, to undertake the manufacturing, packaging, storage and delivery of our skincare products. As part of our Group’s strategy to develop a range of skincare products and colour cosmetics under an available brand name, our Group selected “Marjorie Bertagne” (MB) (the word Marjorie has the meaning of “pearl” in French and evoked a sense of sophistication) from certain readily available brand names owned by Cosme-Tech. At that time, “Marjorie Bertagne” (MB) had never been used by Cosme-Tech for any of its products and no trademark had been registered for “Marjorie Bertagne” (MB). In consideration of our Group’s intention to appoint



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Cosme-Tech as its OEM manufacturer before the end of 2001, Cosme-Tech assigned the interest of the brand name of “Marjorie Bertagne” (MB) permanently to Global Chemicals (China), a member of the Parent Group, in May 2001 for nil consideration. As disclosed below, we subsequently entered into an agreement with Cosme-Tech in November 2001 to appoint Cosme-Tech as our OEM manufacturer.

As the brand name of “Marjorie Bertagne” (MB) had never been used or registered, such brand name was of no value at the time of assignment by Cosme-Tech to our Group. As a result, no accounting treatment was made in view of the fact that no consideration was paid for such assignment. There was no condition attached to the assignment of the brand name of “Marjorie Bertagne” (MB) and no related equipment or technology has been acquired by our Group in addition to the assignment of such brand name. Under such assignment, there was no restriction for our Group to manufacture and sell products under the brand name of “Marjorie Bertagne” (MB) globally.

### *Corporate and product development*

In November 2001, the Parent Company incorporated Global Cosmetics (France) to engage in the commercialising and distributing of perfumes, skincare products and colour cosmetics which were manufactured by our OEM manufacturer. On 3 November 2001, Global Cosmetics (France) entered into a packaging agreement with Cosme-Tech for a term of 24 months pursuant to which Cosme-Tech was appointed as our Group’s OEM manufacturer to undertake the manufacturing, packaging, storage and delivery of our skincare products which utilise hEGF as a primary ingredient under the brand name of “Marjorie Bertagne” (MB). Cosme-Tech has no past or present relationship with our Group, its shareholders, senior management and any of their associate. Cosme-Tech has no past or present relationship with Bio-Click. In December 2001, the “Marjorie Bertagne” (MB) line of skincare products manufactured by our OEM manufacturer was officially launched in Hong Kong. The initial products that were manufactured and sold include products under the line of GG hEGF Bioactive Aging Defence Program (which comprised of a total of 12 products, including hEGF Revitalizing Cleanser, hEGF Restorative Skin Softener and hEGF Age Control Lotion) and Bioactive Facial Enlightening Activator (which comprised of a total of eight products, including hEGF Energizing Cleansing Wash, hEGF Hydra Balance Conditioner and hEGF Moisture Charge Emulsion).

With a view to achieving operation efficiency and maintaining optimal cost structure, our Group began, in March 2002, shipping semi-finished products from France to our production plant in Dongguan for assembly.

Our first “Marjorie Bertagne” (MB) line of skincare products was launched in Shanghai in May 2002. Our new production plant in Dongguan was completed in 2003 and began operations in the same year. Such production plant was responsible for the manufacture of skincare products and colour cosmetics under the brand of “Marjorie Bertagne” (MB). Following the completion of our new production plant, we no longer needed the services provided by Cosme-Tech. Our cooperation with Cosme-Tech ended in November 2003.

In April 2004, Global Cosmetics (China) was established in the PRC to engage in our skincare products and colour cosmetics business separately from that of the Parent Group. Global Cosmetics (China) focuses on the manufacture and sale of skincare products and colour cosmetics in the PRC.

## HISTORY AND REORGANISATION

In August 2004, Global Cosmetics (HK) was established and its primary function was to manage the marketing of our “Marjorie Bertagne” (MB) line of skincare products and colour cosmetics in the PRC and Hong Kong market.

In November 2004, Global Idea was established and was responsible for the overall management of our ODM and OEM business. To meet anticipated increases in demand from our ODM and OEM customers, we constructed our new production plants in Dongguan in 2005 and 2006.

In preparation for the Listing, the Company was incorporated in the Cayman Islands on 7 June 2007 and became the holding company of our Group on 30 June 2007 as a result of the Reorganisation. Further details of the Reorganisation are set out in the paragraph headed “Corporate reorganisation” in Appendix VI to this prospectus.

### **Proposed Spin-off of our Group from the Parent Group**

Our Board of Directors and the board of directors of the Parent Company consider that the proposed spin-off of our Group (the “Proposed Spin-off”) will be beneficial to us for the following reasons:

- (1) We believe our Group has growth paths and different strategies from the Parent Group. The Proposed Spin-off will therefore allow separate platforms for our business and that of the Parent Group to grow with more focused development and strategic planning of our respective operations.
- (2) The Proposed Spin-off will create two distinctive companies in terms of business nature so as to offer the shareholders of the Parent Company with an opportunity to participate in the future developments of our Group as well as the Parent Group and flexibility to invest in both or either of the groups.
- (3) The Proposed Spin-off will enable the management team of the Parent Group to focus on building its core businesses, thereby enhancing the decision-making process and its responsiveness to market changes.
- (4) The Proposed Spin-off will provide a mechanism to attract and motivate our Group’s management directly in line with the financial performance of our Group on a stand-alone basis. Following the Proposed Spin-off, our Group’s business will be managed by a management team experienced in the skincare products and colour cosmetics industry which is distinct from the management of the Parent Group which is experienced in household products, industrial products and biotechnology products industries. Our Group intends to put in place a system of performance-based rewards system for its management team. Following the Proposed Spin-off, as the businesses of our Group will be aligned with the expertise and interests of its management, the management is more likely to be motivated to perform well.
- (5) Prior to the Proposed Spin-off, the Parent Group was a conglomerate engaging in several businesses including the manufacturing and sale of household products, industrial products, cosmetics and skincare products, biotechnology products with medical applications and investment and/or trading in marketable securities, bonds, foreign currencies, various funds and



## HISTORY AND REORGANISATION

income generated fixed assets' portfolios. Following the Proposed Spin-off, our business will entirely focus on the manufacturing of skincare products and colour cosmetics. Our distinct corporate identity will make it easier for us to attract suitable management talent who are experienced in the skincare products and colour cosmetics industry. There will not be any competition between our Group and the Parent Group following the Proposed Spin-off.

- (6) The Proposed Spin-off is expected to improve the operational and financial transparency of our Group and provide investors, the market and rating agencies with greater clarity on the businesses as well as the financial status of our Group. The Proposed Spin-off will require our Group to report its financial performance and operational compliance separately from those of the Parent Group. The separate reporting requirement would bring operational and financial transparency to our Group.
- (7) The Proposed Spin-off will provide separate fund-raising platforms for our Group with respect to our operations and future expansion.

The Proposed Spin-off by the Parent Company complies with the requirements of Practice Note 15 to the Listing Rules.

For details of the Parent Group's business, please refer to the section headed "Relationship with Controlling Shareholder" in this prospectus.

### **Relationship with Cristal Marketing**

Cristal Marketing first acted as our distributor in November 2001.

In order to manage the marketing functions of our "Marjorie Bertagne" (MB) line of skincare products and colour cosmetics in the PRC and Hong Kong market, Global Cosmetics (HK) was established in Hong Kong in August 2004. For the purpose of capitalising the distribution network of Cristal Marketing, Global Cosmetics (HK) was established as a joint venture whose 28,000,000 shares of HK\$1 each were attributable to the Parent Company, while 12,000,000 shares of HK\$1 each was held by Cristal Marketing. The shares were subscribed by the parties at their respective par values. There is no profit and loss sharing arrangement in connection with the joint venture between Global Cosmetics (HK) and Cristal Marketing, other than dividend entitlement in proportion to shareholdings.

On 2 January 2007, an agreement was made between Cristal Marketing and Global Success in respect of the acquisition of 17% of the entire issued share capital of Global Cosmetics (HK) at a cash consideration of HK\$241,090,000. The consideration then paid for such 17% equity interest was determined having regard to the net asset value and earnings of the business of Global Cosmetics (HK) and its subsidiary and the market potential of their business. The acquisition of the 17% equity interest in Global Cosmetics (HK) was completed on 5 March 2007.

To enable us to take full control of the skincare products and colour cosmetics business of our Group and as part of our Group reorganisation and the preparation for the spin-off of our Group from the Parent Group, on 16 August 2007, an agreement was entered into between Global Chemical (BVI), the Parent Company and Cristal Marketing for our Group's acquisition of the remaining 13% equity interest in Global

## HISTORY AND REORGANISATION

Cosmetics (HK) held by Cristal Marketing. Under such agreement, it was agreed that the Parent Company would transfer to Cristal Marketing 13,936,390 Shares then held by the Parent Company, in consideration of and exchange for Cristal Marketing's transfer to us of the 13% equity interest in Global Cosmetics (HK). The 13,936,390 Shares so agreed to be transferred represented approximately 15.34% of our entire issued share capital (excluding the REPS issued by us) and are not subject to any lock-up after Listing. The consideration was determined with reference to, among other things, the fair value of Global Cosmetics (HK) and our Company which were determined on the basis of (i) the unaudited consolidated net profit after tax of Global Cosmetics (HK) and our unaudited consolidated net profit after tax for the year ended 31 December 2006, (ii) our profit/earning ratio calculated with reference to the subscription price of US\$21,000,000 for the issue of REPS as announced by the Parent Company on 3 July 2007, and (iii) the potential dilution effect of the issue of our Shares upon conversion of the REPS. The acquisition of the 13% equity interest in Global Cosmetics (HK) was completed on 29 October 2007.

### THE REORGANISATION

In preparation for the Listing, our Group underwent the following restructuring steps pursuant to the Reorganisation.

On 5 March 2007, Cristal Marketing transferred to Global Chemical (BVI) (as nominated by Global Success) 6,800,000 shares of HK\$1 each in the issued share capital of Global Cosmetics (HK) (representing 17% of the entire issued share capital of Global Cosmetics (HK)) for a consideration of HK\$241,090,000 which was financed by the Parent Group. Such consideration was determined having regard to the net asset value and earnings of Global Cosmetics (HK) and its subsidiary, namely Global Cosmetics (China) and the market potential of their business.

On 6 June 2007, Global Chemical (BVI) acquired the entire issued share capital of High Billion from Global Chemicals (China) in consideration of Global Chemical (BVI) allotting and issuing in its share capital one share having a par value of US\$1, credited as fully paid, to Global Success under the direction of Global Chemicals (China).

On 7 June 2007, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, of which one nil-paid Share was allotted and issued to the subscriber and transferred to the Parent Company.

On 8 June 2007, Global Chemical (BVI) acquired 800 shares having a par value Euro 10 each of Global Cosmetics (France) (being the entire issued shares of Global Cosmetics (France)) from the Parent Company at a cash consideration of Euro 8,000 which equals to the aggregate nominal value of all the issued shares of Global Cosmetics (France).

On 30 June 2007, our Company increased our authorised share capital from HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each to HK\$2,000,000,000 divided into 20,000,000,000 Shares of HK\$0.10 each by the creation of a further 19,999,000,000 Shares each ranking pari passu in all respects with our then existing Shares.

## HISTORY AND REORGANISATION

On 30 June 2007, the entire issued share capital of Global Chemical (BVI) was transferred by Global Success to our Company in consideration of our Company crediting as fully paid the 1 nil-paid Share held by the Parent Company and allotting and issuing 90,849,999 Shares to the Parent Company, credited as fully paid. As a result, our Company became the ultimate holding company of our Group.

On 6 August 2007, the Parent Group assigned to our Company certain loans in the aggregate net sum of HK\$480,026,048 due from our Group to the Parent Group in consideration of our Company allotting and issuing 1 Share to the Parent Company, credited as fully paid.

To acquire the plant and machinery and motor vehicle of the Cosmetics Business Branches and for Listing purpose, by an agreement dated 30 September 2007 (and supplemented by an agreement dated 8 October 2007), Global Cosmetics (China) acquired from Dongguan Gao Bao certain plant and machinery and motor vehicle at a total cash consideration of approximately RMB29,627,000, which represented all those plant and machinery and motor vehicle that generated all the revenue for the Cosmetics Business Branches during the Track Record Period. The transfer of such plant and machinery and motor vehicle took effect on 30 September 2007. The consideration was determined based on the net book value of those plant and machinery and motor vehicle as at 30 September 2007. As the Proamine Plant only constitutes a portion of a multi-storey factory complex owned by Dongguan Proamine, the Proamine Plant could not be segregated from the rest of the property and transferred to our Group.

On 29 October 2007, Global Chemical (BVI) acquired 5,200,000 shares of HK\$1 each in Global Cosmetics (HK) (representing 13% of the entire issued share capital of Global Cosmetics (HK) from Cristal Marketing in consideration of HK\$274,057,887 which was satisfied by the Parent Company transferring 13,936,390 Shares of our Company (representing 15.34% of the then entire issued share capital of our Company) to Cristal Marketing. The consideration of HK\$274,057,887 was determined with reference to, among other things, the fair value of Global Cosmetics (HK) and our Company which were determined on the basis of (i) the unaudited consolidated net profit after tax of Global Cosmetics (HK) and the unaudited consolidated net profit after tax of our Company for the year ended 31 December 2006 and (ii) the profit/earning ratio of our Company calculated with reference to the subscription price of US\$21,000,000 for the issue of REPS as announced by the Parent Company on 3 July 2007. The number of the Shares transferred to Cristal Marketing also took account of the potential dilution effect of the issue of Shares upon conversion of the REPS. Since the acquisition of the 13% of the entire issued share capital of Global Cosmetics (HK) from Cristal Marketing was part of the reorganisation of the corporate structure of our Group for preparation of our Listing, according to the Directors' understanding of the HKFRS and the book value of Global Cosmetics (HK) and our Company, the excess amount of the book value of the Shares to be exchanged over that of the shares of Global Cosmetics (HK) to be exchanged under the acquisition shall be recognised as goodwill, and the goodwill arisen will be subject to impairment test in the future. As a result, Global Cosmetics (HK) became an indirect wholly-owned subsidiary of our Company.

Further details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix VI to this prospectus.

### CAPITALISATION ISSUE

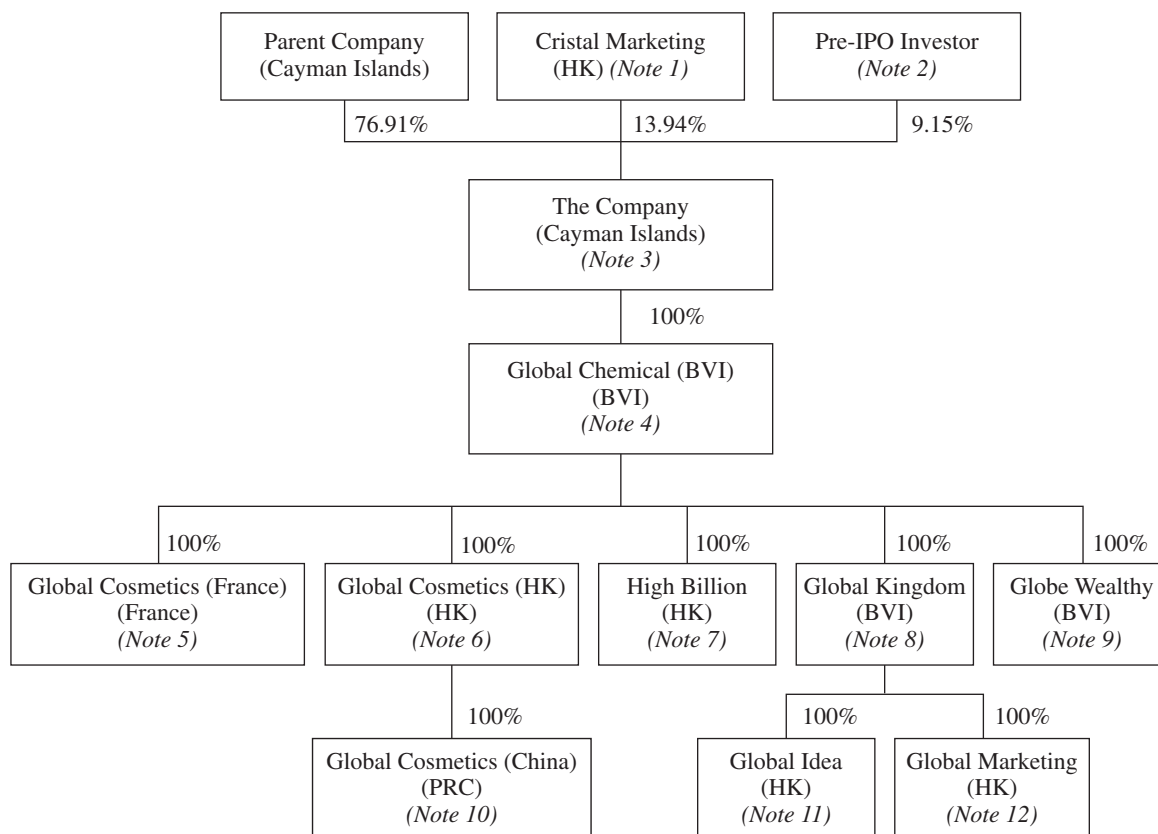
Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Global Offering, our Directors are authorised to capitalise an amount of

## HISTORY AND REORGANISATION

HK\$87,499,999.90 standing to the credit of the share premium account of our Company by applying such sum towards the paying up in full at par a total of 874,999,999 Shares for allotment and issue to our shareholders as of 8 December 2007, on a pro rata basis.

### GROUP STRUCTURE

The following chart sets forth our Group's corporate and shareholding structure immediately before completion of the Global Offering and the Capitalisation Issue:



Note 1: Cristal Marketing is a former shareholder of Global Cosmetics (HK) and a current distributor of our Group. Following the approval of the proposed reorganisation by shareholders of the Parent Company at the extraordinary general meeting held on 8 October 2007, Cristal Marketing has become a shareholder of the Company with effect from 29 October 2007.

Note 2: Upon conversion of the REPS and immediately before the Global Offering and the Capitalisation Issue, 9.15% of the entire issued share capital of our Company will be held by the Pre-IPO Investor. Further details of the issue and conversion of the REPS are set out in the section headed "History and Reorganisation — Pre-IPO Investment" in this prospectus.

Note 3: The Company was incorporated in the Cayman Islands with limited liability on 7 June 2007. Its principal activity is investment holding.

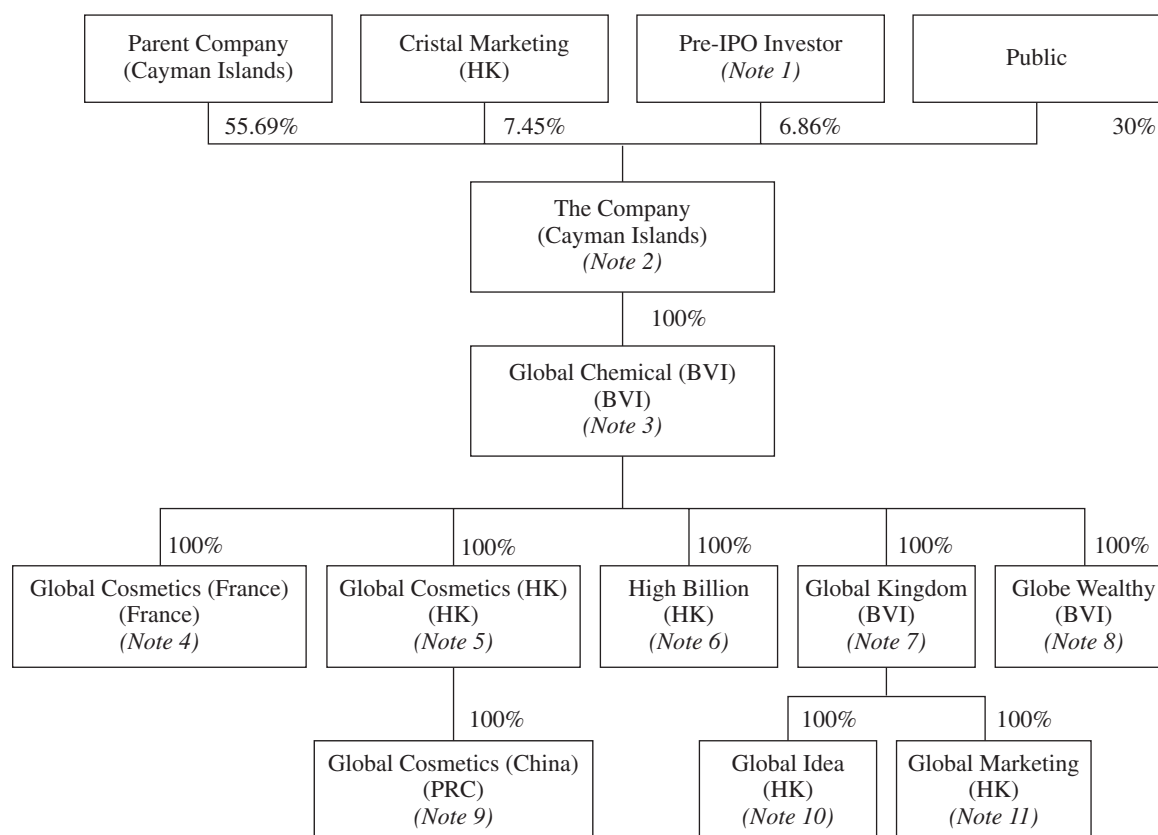
Note 4: Global Chemical (BVI) was incorporated in the BVI with limited liability on 9 August 1996. Its principal activity is investment holding.

Note 5: Global Cosmetics (France) was incorporated in France with limited liability on 21 November 2001. It is currently inactive.

## HISTORY AND REORGANISATION

- Note 6: Global Cosmetics (HK) was incorporated in Hong Kong with limited liability on 6 August 2004. Its principal activities are investment holding and trading of skincare products and colour cosmetics.
- Note 7: High Billion was incorporated in Hong Kong with limited liability on 13 October 2000. Its principal activity is acting as the licensee of technical know-how of hEGF.
- Note 8: Global Kingdom was incorporated in the BVI with limited liability on 3 January 2003. Its principal activity is investment holding.
- Note 9: Globe Wealthy was incorporated in the BVI with limited liability on 28 November 2005. It is currently inactive.
- Note 10: Global Cosmetics (China) is a wholly foreign owned enterprise established in the PRC on 1 April 2004. Its principal activity is the manufacture and sale of skincare products and colour cosmetics.
- Note 11: Global Idea was incorporated in Hong Kong with limited liability on 15 November 2004. Its principal activity is trading of ODM and OEM skincare products and colour cosmetics.
- Note 12: Global Marketing was incorporated in Hong Kong with limited liability on 15 November 2004. It is currently inactive.

The following chart sets forth our Group's corporate and shareholding structure immediately after completion of the Reorganisation, the Global Offering, the Capitalisation Issue and the conversion of the REPS (assuming the Over-allotment Option is not exercised and without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme):



## HISTORY AND REORGANISATION

- Note 1: Upon conversion of the REPS and immediately after the Global Offering and the Capitalisation Issue, 6.86% of the entire issued share capital of our Company will be held by the Pre-IPO Investor. Further details of the issue and conversion of the REPS are set out in the paragraph headed “History and Reorganisation — Pre-IPO Investment” in this prospectus.
- Note 2: The Company was incorporated in the Cayman Islands with limited liability on 7 June 2007. Its principal activity is investment holding.
- Note 3: Global Chemical (BVI) was incorporated in the BVI with limited liability on 9 August 1996. Its principal activity is investment holding.
- Note 4: Global Cosmetics (France) was incorporated in France with limited liability on 21 November 2001. It is currently inactive.
- Note 5: Global Cosmetics (HK) was incorporated in Hong Kong with limited liability on 6 August 2004. Its principal activities are investment holding and trading of skincare products and colour cosmetics.
- Note 6: High Billion was incorporated in Hong Kong with limited liability on 13 October 2000. Its principal activity is acting as the licensee of technical know-how of hEGF production.
- Note 7: Global Kingdom was incorporated in the BVI with limited liability on 3 January 2003. Its principal activity is investment holding.
- Note 8: Globe Wealthy was incorporated in the BVI with limited liability on 28 November 2005. It is currently inactive.
- Note 9: Global Cosmetics (China) is a wholly foreign owned enterprise established in the PRC on 1 April 2004. Its principal activity is manufacture and sale of skincare products and colour cosmetics.
- Note 10: Global Idea was incorporated in Hong Kong with limited liability on 15 November 2004. Its principal activity is trading of ODM and OEM skincare products and colour cosmetics.
- Note 11: Global Marketing was incorporated in Hong Kong with limited liability on 15 November 2004. It is currently inactive.

### PRE-IPO INVESTMENT

On 3 July 2007, the Pre-IPO Investor entered into a subscription agreement (the “Subscription Agreement”) with the Parent Company and us, and subscribed for 91,500 REPS, which shall be automatically converted into 9,150,000 Shares (which carry the right to participate in the Capitalisation Issue) immediately prior to our initial public offering for a consideration of US\$21,000,000 (equivalent to approximately HK\$164,178,000) in cash. This represents an aggregate of 9.15% of our enlarged issued share capital, on a fully diluted basis immediately following completion of the conversion rights attaching to the REPS, but prior to the issue of new Shares pursuant to the Global Offering, and approximately 6.86% of our issued share capital immediately following completion of the Reorganisation, the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme). The proceeds from the investment were used to repay part of the loan due from us to the Parent Group. Please refer to the section headed “Relationship with Controlling Shareholder — Independence from Parent Group — Financial Independence” in this prospectus.

The principal terms and conditions in relation to the REPS under the Subscription Agreement include:

- The 91,500 REPS held by the Pre-IPO Investor will be converted into 9,150,000 Shares immediately prior to our initial public offering pursuant to the Subscription Agreement.

## HISTORY AND REORGANISATION

- The price which the Pre-IPO Investor paid for the REPS (the “Subscription Price”), represents a discount of approximately 62.29% to the bottom end of the stated price range of the Offer Price, and a discount of 70.22% to the top end of the stated price range of the Offer Price, on the basis of the enlarged share capital of the Company upon completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme). The Subscription Price was arrived at after arm’s length negotiations with the Pre-IPO Investor with reference to the performance and earnings of our Group in 2006, our Group’s future prospects and the potential growth of the retail and cosmetics industry in the PRC generally.
- Any Shares converted by the Pre-IPO Investor will be subject to a contractual 180-day lock-up period from the Listing Date and they will not be counted as part of the public float.

Under the Subscription Agreement, the Pre-IPO Investor is entitled to the following rights:

*Dividends.* Periodic payments of preferential dividends in respect of the REPS distributed by us and shall be calculated at 5% of the nominal or face amount of each REPS, being US\$229.5082 each. Such dividend rights will cease upon conversion of the REPS.

*Reserved matters.* Consent is required to be obtained from the Pre-IPO Investor for certain reserved matters of our Group (such as capital distribution of our assets or ordinary shares, distribution or issue of new ordinary shares of our Company, change of business nature of our Company, inter-company transaction and declaration of dividend by us).

*Redemption rights.* The Pre-IPO Investor is entitled to redeem the REPS if our initial public offering is not effected at any time after the first 24 months of the date of issue of the REPS, namely 7 August 2007.

The rights granted to the Pre-IPO Investor under the Subscription Agreement include certain rights on the reserved matters mentioned above. All rights granted to the Pre-IPO Investor under the Subscription Agreement and not generally available to other shareholders will be terminated upon Listing.

It is our development strategy to seek internationally reputable investors to diversify our shareholder base and we believe the introduction of the Pre-IPO Investor will enhance our shareholder profile and create prospects and new contacts for additional business opportunities.

### PRC GOVERNMENT APPROVALS

The State Council on Further Strengthening Overseas Stock Issuance and Listing Management Notice (1997) No. 21 《國務院關於進一步加強在境外發行股票和上市管理的通知(國發〔1997〕21號)》 (the “Notice”), amongst other things, applies to non-listed Chinese controlled companies registered in foreign jurisdictions as well as Chinese controlled foreign companies seeking overseas listings. As neither our Company nor the Parent Group are Chinese controlled entities, our Company’s proposed listing is not required to seek listing approval pursuant to the Notice.

Pursuant to the Announcement on Cancelling the Second Group of Administrative Approval Items and on Changing the Management Methods of Some Administrative Approval Items



## HISTORY AND REORGANISATION

《關於取消第二批行政審批項目及改變部分行政審批項目管理方式的通告》 issued by CSRC on 1 April 2003, CSRC is no longer required to issue a “no objection letter” (“無異議函”), an administrative approval item stipulated by China Securities Regulatory Commission on Offshore Companies Involving Domestic Rights and Interests Conducting Offshore Stock Issuance and Listing Notice (2000) No. 72 《中國證券監督管理委員會關於涉及境內權益的境外公司在境外發行股票和上市有關問題的通知》 (證監發行字 [2000] 72號), for overseas controlled entities.

Based on the foregoing, our PRC legal advisers, Guangdong Harbour Law Firm, have confirmed that we are not required to obtain the “no objection letter” issued by CSRC with respect to our proposed Listing.

Pursuant to the Rules on Acquisition of Domestic Enterprises by Foreign Investors 《關於外國投資者并購境內企業的規定》 (the “M&A Rule”), published on 8 August 2006 and effective from 9 September 2006, certain special purpose vehicles seeking overseas listing are required to obtain listing approval from CSRC. Specifically, special purpose vehicle requiring CSRC listing approval is defined to include overseas companies controlled, directly or indirectly, by Chinese companies or Chinese natural persons for the purpose of listing overseas the equity interests it actually owns in a Chinese company. As the Parent Company is a Hong Kong listed company which was incorporated in the Cayman Islands and there is no foreign acquisition of any Chinese company by us, our PRC legal advisers, Guangdong Harbour Law Firm, have advised us that we do not fall within the definition of a special purpose company under the M&A Rules and our proposed Listing does not require CSRC approval.



## BUSINESS

### OVERVIEW

We are one of the leading branded skincare products and colour cosmetics enterprises in the PRC where we market under the “Marjorie Bertagne” (MB) brand name. We are principally engaged in the research, development, manufacture and sale of skincare products and colour cosmetics. We sell our “Marjorie Bertagne” (MB) products to our distributors who are responsible for distributing our products in the PRC, Hong Kong and Macau through a sales network of approximately 1,252 points of sales. We have developed and promoted our “Marjorie Bertagne” (MB) brand name through a variety of marketing and promotional strategies, such as the promotion of celebrities as our spokespersons, sponsorship of television programmes and advertising campaigns including product launches, press conferences, television commercials, billboard posters, newspapers and magazines.

We are one of the few producers in the PRC who can produce hEGF and employ it in our own skincare products. hEGF has proven effective in encouraging human skin growth. Our Directors believe that there are three producers currently in the PRC market other than our Group which produce skincare products that contain hEGF. Based on a number of scientific studies such as a report published in *Biotechnology & Genetic Engineering Reviews* entitled “Applications, and Efficient Large-Scale Production, of Recombinant Human Epidermal Growth Factor” published in July 2001, it was noted that skincare products with hEGF ingredients have the effect of improving human skin cell growth and retarding the skin aging process.

The “Marjorie Bertagne” (MB) brand has two separate lines of skincare products which are targeted at retail and professional markets. The retail line includes our skincare products and targets customers who buy our products in retail outlets such as dedicated counters at department stores, cosmetics shops and specialty stores. This line of products is not used under the direction of professional skincare consultants. We launched our professional line of skincare products to the health and beauty salons in March 2005. The professional line also includes our skincare products but targets customers who seek customised skincare treatment services in the health and beauty salons. This line of products is normally used under the direction of professional skincare consultants in health and beauty salons which provide customised skincare treatments, such as facial and body treatments. The professional line of products is specifically designed to be used in the health and beauty salons. As advised by our PRC legal advisers, Guangdong Harbour Law Firm, our Directors confirm that the professional skincare consultants are generally not required to obtain any licences and permits in order to provide customised skincare treatments to customers. As advised by our legal advisers as to Hong Kong laws, the professional skincare consultants who provide customised skincare treatments to customers at the health and beauty salons are generally not required to obtain any licenses and permits under the laws of Hong Kong. As the professional skincare consultants are employees of the distributors who run the health and beauty salons, any liability arising out of the skincare treatments undertaken by the professional skincare consultants will be borne by such distributors.

We do not sell our “Marjorie Bertagne” (MB) products directly to consumers but rely on our distributors to distribute our products in the PRC, Hong Kong and Macau through a sales network of approximately 1,252 points of sales. These points of sales are segmented into five channels: (i) brand image stores, (ii) dedicated counters in department stores, (iii) cosmetics shops, (iv) specialty stores, and (v) health and beauty salons. As at 30 September 2007, our “Marjorie Bertagne” (MB) products were sold at 208 dedicated counters, five brand image stores, 369 cosmetics shops, 69 specialty shops and 601 health

## BUSINESS

and beauty salons. We sold our “Marjorie Bertagne” (MB) products through five distributors in 2004 and 2005, and 16 distributors in 2006. For our “Marjorie Bertagne” (MB) products, all our sales are made directly to our distributors and we do not have any wholesale operations. Our retail operations are run by our distributors under our supervision. We have an understanding on the inventory management of our distributors and points of sales (namely dedicated counters in department stores, brand image stores, cosmetics shops, specialty stores and health and beauty salons) through frequent communication with our distributors and visits some of the points of sales by our sales and marketing team.

We have invested in dedicated counters in the department stores and brand image stores which sell our “Marjorie Bertagne” (MB) products and provide health and beauty services using our “Marjorie Bertagne” (MB) products by paying for the design and set up costs. Such dedicated counters and brand image stores are not operated by our Group. Under the distribution agreements with our distributors, we retain a degree of control over the dedicated counters and brand image stores and we manage our distributors and the dedicated counters and brand image stores operated or supervised by these distributors through various measures, including:

- (a) *Retail pricing.* We adopt a unified retail pricing policy in the PRC, Hong Kong and Macau with discounts offered to our distributors based on the retail prices set by us. No profit sharing arrangements have been made between us and our distributors.
- (b) *Brand image at retail outlets.* We aim to create a unique image for retail outlets, namely dedicated counters and brand image stores through the use of unified decoration and designs distinctive to our products and brand portfolio.
- (c) *Dedicated counters and brand image stores location.* We seek to ensure that there is no over-concentration of dedicated counters and brand image stores within any designated area which may cause material competition among these counters and stores. Any expansion plan such as opening and location of dedicated counters or brand image stores operated by our distributors must be approved by us prior to implementation. We are not aware of any saturation of our products sold in a particular area or region. We also retain control over the closing of existing dedicated counters or brand image stores, even though we do not own such counters and stores.

Apart from dedicated counters and brand image stores, points of sales such as cosmetics shops, specialty shops and health and beauty salons are owned by distributors selling our “Marjorie Bertagne” (MB) products and also skincare products and colour cosmetics of other brands. We have no control over such points of sales.

Our business model is common in the skincare products and colour cosmetics industry in the PRC and has enabled us to achieve growth in sales by leveraging economies of scale from our distribution arrangements. Our sales are made on an outright and non-recourse basis. We pass the title of our products to our distributors when they are delivered to the points of sales.

We possess GMPC qualified production facilities which not only surpass the corresponding PRC standards but also meet with the standards of the European Union and the United States. We have accumulated significant experience in the production of skincare products and colour cosmetics for the medium to high-end market and mass markets since commencing our skincare products and colour cosmetics business in 2002.

## BUSINESS

As at the Latest Practicable Date, we had developed over 120 skincare products and 10 colour cosmetics under the brand name of “Marjorie Bertagne” (MB). The brand name of “Marjorie Bertagne” (MB) was permanently assigned to Global Chemicals (China), a member of the Parent Group, by our French OEM manufacturer, Cosme-Tech in May 2001, and subsequently transferred to us in 2007. For further details of our intellectual property rights, please refer to the sections headed “Business — Intellectual Property Rights” and “History and Reorganisation” in this prospectus. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, our sales of “Marjorie Bertagne” (MB) brand products accounted for approximately 100.0%, 97.6%, 87.6% and 95.1%, respectively, of our total turnover.

As at the Latest Practicable Date, all of our “Marjorie Bertagne” (MB) skincare products contained hEGF. Save for our “Marjorie Bertagne” (MB) skincare products, we do not use hEGF in any of our other products. We also develop and produce colour cosmetics and personal care products which do not contain hEGF through our in-house product design and development team. These products include toiletries and colour cosmetics under our own private brand names “Face” and “Envita” which are or will be distributed through international retail outlets. We commenced sales under the brand name of “Face” in September 2007 and we plan to commence sales under the brand name of “Envita” in the first half of 2008.

We also plan to sell toiletries, skincare products and colour cosmetics under the brand name of “MB2” which will be launched and sold in hypermarkets and cosmetics shops in the PRC in the second half of 2008. As at the Latest Practicable Date, none of the products developed and produced by us under our own private brand names contain hEGF. We plan to seek qualified professionals to offer advice and audit our products under the brand names of “Face” and “Envita” so as to ensure that we meet all applicable European laws and regulations in connection with the introduction of such skincare products and colour cosmetics. We will adopt the same approach when introducing our products to the United Kingdom and U.S. markets.

In addition to manufacturing products under our own brand, we are also engaged in the ODM and OEM businesses, under which we design and manufacture skincare products, colour cosmetics and toiletries for our ODM and OEM customers in Europe and the United States. In 2005, we had spare production capacity and gained the ODM and OEM qualification of our ODM and OEM customers. We commenced our ODM and OEM business in June 2005. The products designed and produced by us under our ODM and OEM business do not contain hEGF. As part of our ODM and OEM businesses, our customers are served by our own research and development and sourcing teams of technical experts and experienced merchandisers to enable our customers to enjoy our “One-Stop Service” in terms of research, development and production for high quality products at competitive prices. Our ODM and OEM customers are mainly international chain stores and pharmacists such as Next. For the two years ended 31 December 2006 and the six months ended 30 June 2007, our top five ODM and OEM customers accounted for approximately 99.6%, 98.3% and 99.3%, respectively, of our ODM and OEM turnover.

## BUSINESS

The first half of each year is the traditional slow season of our ODM and OEM business. Turnover for ODM and OEM business were HK\$10.7 million and HK\$12.6 million for the six months ended 30 June 2006 and 30 June 2007, respectively while the turnover for ODM and OEM business was HK\$50.9 million for the whole year of 2006. For each of the two years ended 31 December 2006, and the six months ended 30 June 2007, the number of our ODM and OEM customers was four, 11 and six, respectively. For each of the two years ended 31 December 2006, and the six months ended 30 June 2007, our turnover contributed from the largest ODM and OEM customer was approximately HK\$6,201,000, HK\$21,662,000 and HK\$9,103,000, respectively.

Our product design and development team is highly experienced in developing designs to meet customers' needs and preferences. Our product design team members have average working experience of approximately 5.3 years engaging in the design of colour cosmetics and toiletries gift items for overseas retail networks such as Next.

For the three years ended 31 December 2006 and the six months ended 30 June 2006 and 30 June 2007, the total turnover attributable to our different lines of business are set out below:

	For the year ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Retail line	182,871	99.7	273,238	77.6	212,368	51.9	113,440	60.0	167,518	65.2
Professional line	—	—	36,163	10.3	127,151	31.0	55,809	29.5	66,179	25.8
Subtotal	182,871	99.7	309,401	87.9	339,519	82.9	169,249	89.5	233,697	91.0
Colour cosmetics (excluding personal care products)	623	0.3	34,262	9.7	19,105	4.7	9,139	4.8	10,628	4.1
ODM and OEM products	—	—	8,302	2.4	50,855	12.4	10,685	5.7	12,573	4.9
Total turnover	183,494	100.0	351,965	100.0	409,479	100.0	189,073	100.0	256,898	100.0

## BUSINESS

The following table sets out the percentages of our operating profit margin before financial expenses, other income and taxation divided by turnover by geographical regions for each of the three years ended 31 December 2006 and the six months ended 30 June 2007:

	Year ended 31 December						Six months ended 30 June	
	2004		2005		2006		2007	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
PRC	169,928	92.6	334,795	95.1	350,839	85.7	241,762	94.1
Hong Kong	12,491	6.8	7,880	2.2	6,893	1.7	2,119	0.8
Macau	1,075	0.6	988	0.3	892	0.2	444	0.2
United Kingdom, United States and others ( <i>Note</i> )	—	—	8,302	2.4	50,855	12.4	12,573	4.9
<b>Total turnover</b>	<b><u>183,494</u></b>	<b><u>100.0</u></b>	<b><u>351,965</u></b>	<b><u>100.0</u></b>	<b><u>409,479</u></b>	<b><u>100.0</u></b>	<b><u>256,898</u></b>	<b><u>100.0</u></b>
Operating profit before financial expenses, other income and taxation	61,688		112,343		168,054		133,282	
<i>Operating profit margin</i>	33.6%		31.9%		41.0%		51.9%	

*Note:* The amounts generated from the United Kingdom, the United States and others represent our Group's revenue generated from ODM and OEM customers. Others include Australia, Spain, Italy, France and Austria.

### COMPETITIVE STRENGTHS

We believe that the market for skincare products and colour cosmetics business is characterised by keen competition between domestic and multinational skincare products and colour cosmetics manufacturers. Brand positioning, quality, performance and price significantly influence consumers' choices among competing products, services and brands. We believe we have the following competitive strengths:

#### **Unique brand positioning and wide recognition of the “Marjorie Bertagne” (MB) brand name in our target markets**

We are one of the few producers in the PRC who can produce hEGF. Our Directors believe that there are three producers currently in the PRC market other than our Group which produce skincare products that contain hEGF. The “Marjorie Bertagne” (MB) brand is unique in employing hEGF as our main active ingredient in most of our skincare products. Complemented by effective marketing and advertising programmes, we position and promote “Marjorie Bertagne” (MB) as a fashionable brand with highly effective products. The “Marjorie Bertagne” (MB) brand distinguishes us from other brands and enhances our customer affinity. To facilitate product penetration, we separate our target markets into two segments: premier and medium-high markets, and develop corresponding product lines using different pricing and marketing strategies. We target white collar female customers with medium to high income, female entrepreneurs and wealthy housewives.

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### **Comprehensive range of proprietary, self-developed high-quality products**

We can manufacture, promote and distribute a wide spectrum of high-quality products covering skincare products and colour cosmetics. We place great emphasis on product quality control. Most of our products are formulated with the use of hEGF and other high quality ingredients specially selected for their different functions including anti-aging, moisturising, whitening, revitalising and ultra-violet (UV) protection.

### **Strong and effective marketing capabilities**

As a result of our aggressive advertising and promotion efforts such as sponsorship of Miss Hong Kong Pageant 2002 and 2003 and setting up of dedicated counters in major department stores and brand image stores, we believe we have successfully established the awareness of our brand name “Marjorie Bertagne” (MB) in the PRC, Hong Kong and Macau. We also believe our brand name was established through our effective sales and marketing strategies which comprise engagement of Ms. Rosamund Kwan and Ms. Charlie Young as spokespersons for our Group, sponsorship of television programmes and advertising campaigns through a variety of media including product launch press conferences, television commercials, billboard posters, newspapers and magazines. We believe that these marketing capabilities and our focus on continually building our brand name will help us to increase sales and strengthen our market position.

### **Extensive distribution channel**

We have a sales network of approximately 1,233 points of sales including brand image stores invested by us, dedicated counters in department stores designed and set up by us, and cosmetics shops, health and beauty salons and specialty stores owned, operated and run by our distributors, throughout 50 cities in the PRC. In Hong Kong and Macau we have two brand image stores, six health and beauty salons and 11 dedicated counters in department stores. We believe we have in place an extensive distribution network which provide strong support for the penetration of our products into each market. Through our extensive sales network run by our distributors under our supervision, we believe we are able to effectively market new lines of products, new brands, and thus further expand our business.

### **Strategic distribution model and diversified channel mix**

While the PRC market is heavily targeted by multinational brands, the overall market remains fairly fragmented with many second- and third-tier cities in the PRC still largely untapped by major brands. In view of this market opportunity, we have scaled up our business rapidly over the past few years to achieve national coverage with approximately 1,233 points of sales through 50 cities including many of the second- and third-tier cities in the PRC. We believe we have a diversified mix of distribution channels including department stores, cosmetics shops, health and beauty salons and specialty stores.

## BUSINESS

### **Strong research and product development capability**

Our core management and the marketing team have in-depth market knowledge based on their extensive working experiences in the skincare products and colour cosmetics industry, and other related fields. Our research and development team is highly capable. For example, it is capable of launching a new formulation within six months from the commencement of research. This team works closely with our sales team to share market information and research and development progress so as to capture emerging market trends. Our Group's success depends upon our ability to improve our existing products and to introduce new products with specific features and benefits that suit different customer needs.

As at the Latest Practicable Date, our research and development team comprised 29 members and consultants with relevant professional or academic qualifications recruited locally and overseas. By leveraging the expertise and experience of our research and development team, we have the requisite capabilities for researching, designing and developing new, innovative and effective products which can be introduced to and launched in the market in a timely manner. For product development, we corroborated expertise and knowledge from different areas, in particular, cosmetics and bio-chemistry, and cooperated with different organisations and universities to conduct research on different growth factor ingredients so as to develop skincare products and colour cosmetics tailored to different customer needs.

As at the Latest Practicable Date, we had developed over 1,231 and launched 761 skincare products and colour cosmetics. The formulation and product-related information of the products developed by us but not launched are kept in our database for future research purposes. These products are not manufactured.

For the three years ended 31 December 2006 and the six months ended 30 June 2007, the total expenses incurred by us for research and development, including the gathering of market information and salaries paid to our research and development team by our Group, amounted to HK\$3,473,000, HK\$1,092,000, HK\$6,544,000, HK\$851,000, respectively. No research and development cost was capitalised during the Track Record Period. Our research and development costs accounted for approximately 1.9%, 0.3%, 1.6% and 0.3%, respectively, of our turnover for each of the three years ended 31 December 2006 and the six months ended 30 June 2007.

We expect to maintain our total spending on research and development at 1% to 2% of our total turnover in the future and will finance it by cash generated by operation. The level of spending will be varied according to the number of new products and ingredients being developed.



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### **Experienced management team**

We have an experienced and dedicated management team with extensive operational expertise and in-depth understanding of the skincare products and colour cosmetics industry. Most of our core management team have over 30 years of experience in retailing and marketing skincare products and colour cosmetics. We believe the extensive knowledge and experience of our management team have been crucial to the success of our business, as well as the implementation and execution of an efficient vertically integrated business model. Our Group's vertically integrated business model encompasses all aspects of skincare products and colour cosmetics manufacturing and sales chain ranging from the production of active ingredient to manufacturing of skincare products and colour cosmetics and establishing distribution networks. We also believe that, as evidenced by our financial performance during the Track Record Period and the extensive sales network developed by us, our management team has been able to effectively manage as well as communicate and implement our corporate strategies.

### **Established relationships with ODM and OEM customers of leading international chains**

We have established relationships with our major ODM and OEM customers of leading retailers and selling personal care products, skincare products, colour cosmetics and toiletries. Our ODM and OEM customers from time to time inspect our production facilities, quality control system and working environment to ensure the European Union or the U.S. standards as well as our corporate standards are satisfied before placing orders. The certifying process by our ODM and OEM customers is thorough and lengthy. Our Directors believe that these relationships demonstrate our commitment to product quality, timely delivery of products and our quick response to market demand for different product specifications. We endeavour to strengthen our continuing alliance with these customers.

## **BUSINESS STRATEGIES**

Our strategy is to establish the "Marjorie Bertagne" (MB) brand name as a highly regarded and widely recognised brand name and to increase market penetration of our products in the PRC, Hong Kong and Macau. Key elements of our strategy include:

### **Continuing to expand our distribution network and product offerings in the PRC**

We plan to expand our presence in the PRC through an expansion of our distribution network and compelling product offerings aimed at different segments of the skincare products and colour cosmetics market. We intend to accomplish such goals by expanding our market coverage, as well as increasing the coverage of our existing markets. For example, we plan to:

- invest in and set up more brand image stores in the PRC. We plan to open approximately 200 brand image stores within the next four years;
- continue expanding our distribution network to cover suburban areas and outskirts of the first-tier cities in line with the expansion of their city boundaries, thus enabling us to capture an even wider range of customers;



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- increase our market presence in first-tier cities such as Beijing, Shanghai and Guangzhou. We intend to identify opportunities that will enable us to increase our number of dedicated counters within the major department stores in these cities;
- increase our market presence in certain second- and third-tiers cities selected by us. The increasing number of department stores that have opened in second- and third-tiers cities has presented us with a good opportunity to expand the coverage of our retail network; and
- explore overseas business opportunities. Although we consider the PRC to be our key market, we also intend to continue exploring growth opportunities in other international markets in which we believe our products will be competitive.

### **Expanding our brand portfolio and product offerings and diversifying our range of brands and products in the PRC and internationally**

We intend to expand our product offerings in order to progressively increase our coverage of the consumer market and to position ourselves as a diversified skincare products and colour cosmetics producer in the PRC and Hong Kong by developing and launching a diversified range of skincare products and colour cosmetics with different characteristics and features catering to the needs of customers of different ages and genders. We also intend to widen our brand portfolio by:

- introducing our new toiletries, skincare products and colour cosmetics under the brand name of “MB2” that are targeted towards the low- to medium-end consumer segments and planned to be sold in hypermarkets in the Greater China Region. The “MB2” brand will be launched as a sister brand of “Marjorie Bertagne” (MB), catering to a younger clientele. We currently have no plans as to whether or not to use HEGF in our “MB2” products;
- introducing our new line of men’s products under the brand name of “Marjorie Bertagne” (MB);
- introducing our new fragrance products under the brand name of “Marjorie Bertagne” (MB); and
- continuing to diversify our product range according to our brand positioning.

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### **Launching advertising and promotional campaigns**

We intend to launch a new series of advertising and promotional campaigns including media advertising and promotion of female and male celebrities to be our spokespersons to reinforce our “Marjorie Bertagne” (MB) brand image. In addition, we will also organise promotional events and roadshows to enhance the brand awareness and market position of our products.

### **Maintaining our position in the PRC and Hong Kong while expanding overseas market penetration**

We plan to leverage our position in the PRC and Hong Kong to expand our sales to certain overseas markets where suitable opportunities arise through our ODM and OEM customers who are able to provide us with valuable country-specific expertise and access to customers and business relationships. By developing our ODM and OEM sales, principally for European and U.S. customers, we can leverage our manufacturing base and capitalise on our operational expertise in skincare, colour cosmetics, toiletries and fragrance production. We have commenced sales under our own private brand name of “Face” in the United Kingdom through an ODM and OEM customer, namely Next, in September 2007 and we plan to commence sales under the brand name of “Envita” in Europe in the first half of 2008.

## **PRODUCTS OF THE GROUP**

We are a leading skincare and colour cosmetics manufacturers in the PRC, offering a wide range of skincare products and colour cosmetics in the PRC, Hong Kong and Macau. We possess GMPC qualified facilities which not only surpass the corresponding PRC standards but also meet with the standards of the European Union and the United States. We have accumulated significant experience in the production of skincare products and colour cosmetics for the medium- to high-end market and mass markets since commencing our skincare products and colour cosmetics business in 2002.

We use hEGF as our principal ingredients in the manufacture of most of our products and the development of skincare solutions. According to a number of scientific studies, hEGF has been proven effective in improving human skin cell growth. In a report entitled “Human Epidermal Growth Factors: Isolation and Chemical and Biological Properties” published in Proceedings of the U.S. National Academy of Sciences in April 1975, it was noted that biological properties of hEGF included the stimulation of the growth of human skin. In another report published in Biotechnology & Genetic Engineering Reviews in July 2001 entitled “Applications, and Efficient Large-Scale Production, of Recombinant Human Epidermal Growth Factor”, it was noted that skincare products with hEGF have the effect of retarding the skin aging process. We believe using our products containing hEGF ingredients encourage skin growth resulting in smooth and less wrinkled skin.

In 2000, we started discussion with three individuals who were then professors of the HKUST for the collaboration on the development of hEGF. In 2001, our Group entered into an agreement with Huang Baiqing and Lau Kwok Yiu to acquire the entire issued share capital of High Billion, which has obtained the license from Bio-Click to use the technology in relation to hEGF and manufacture skincare products which incorporate hEGF. The licence granted to High Billion by Bio-Click is non-exclusive. For more

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details, please refer to the section headed “History and Reorganisation” in this prospectus. There is a possibility that Bio-Click will license such technology know-how to other parties or that a third party may develop similar technical knowledge through its own technology research. Using such advanced and proprietary technologies, we were successful in extracting hEGF from cell membranes.

Prior to our discussion with the three professors in 2001, HKUST engaged China Medical University (“CMU”), an independent third party, to perform toxicity tests to verify the toxicity of hEGF. Following extensive tests, CMU issued its report in July 1998, which stated that the hEGF ingredients contained no detectable traces of toxicity. Based on available scientific studies and reports, our Directors are not aware of any reported cases before and after 1998 of adverse side-effects from prolonged use of hEGF. During the three years ended 31 December 2006 and the six months ended 30 June 2007, our Directors have not received any complaints from customers in relation to side effects resulting from the use of our products containing hEGF.

The hEGF technology licensed from Bio-Click primarily involves the preparation of selected hEGF polypeptide proteins, the transformation of hEGF polypeptide protein into a prerequisite form followed by fermentation of the hEGF polypeptide protein and lastly, the extraction and purification of hEGF from the fermentation mixture. After initially extracting hEGF, and following independent verification of its quality, we began large scale, commercial production of hEGF. Using the latest production facilities and equipment, and the technology know-how in relation to hEGF, which was licensed under the Original Agreement and as amended and supplemented by the Supplemental Deed, we believe we possess the technology, equipment and knowhow to economically extract hEGF. Based on the annual hEGF output volume as well as hEGF production costs, it is our Directors’ understanding that the prevailing average market price as at the Latest Practicable Date for a gramme of hEGF as quoted by domestic and international suppliers was substantially higher than our average hEGF production cost. Our ability to produce hEGF in large commercial quantities at comparatively low costs is one of our competitive strengths that currently cannot be matched by our competitors who do not produce hEGF by themselves and have to purchase hEGF from the market at higher cost.

In November 2001, the Parent Company incorporated Global Cosmetics (France) to engage in the commercialising and distributing of perfumes, skincare products and colour cosmetics. We have formulated our series of skincare products under the brand name of “Marjorie Bertagne” (MB) using hEGF as the main active ingredient. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the amount of our Group’s sales in respect of products containing hEGF is HK\$169.0 million, HK\$296.0 million, HK\$334.3 million and HK\$230.2 million, respectively, representing 92.1%, 84.1%, 81.6% and 89.6%, respectively, of the total sales. As at the Latest Practicable Date, “Marjorie Bertagne” (MB) was one of the few skincare brands available in the market which contains hEGF. To our Directors’ understanding and knowledge, there are only a handful of producers in the PRC market which produce skincare products that contain hEGF.

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The “Marjorie Bertagne” (MB) brand has two separate lines of skincare products which are targeted at retail and professional markets. The retail line includes our skincare products and targets customers who buy our products in our retail outlets such as brand image stores and dedicated counters in department stores, cosmetics shops and specialty stores. This line of products will not be used under the direction of professional skincare consultants. We launched and introduced our professional line of skincare products to the health and beauty salons in March 2005. The professional line also includes our skincare products but targets customers who seek customised skincare treatment services in the health and beauty salons. This line of products is normally used under the direction of professional skincare consultants in the health and beauty salons providing customised skincare treatment, such as facial treatment and body treatments. The professional skincare consultants are employees of the distributors who run the health and beauty salons. The professional line of products is specially designed to be used in the health and beauty salons. In terms of product range as compared with the retail line, the professional line provides a broader range of products including body care and aromatherapy. As at the Latest Practicable Date, we had 68 retail line products and 62 professional line products, of which 120 and 10 are skincare products and colour cosmetics, respectively.

Our products under the “Marjorie Bertagne” (MB) brand can be broadly categorised into two types, namely (i) skincare products; and (ii) colour cosmetics. We provide a wide range of product lines marketed under different pricing regimes with a view to capturing customers from different market segments. The table below sets out the sales of each of our product type in our Group’s total “Marjorie Bertagne” (MB) brand sales for the three years ended 31 December 2006 and the six months ended 30 June 2007:

<b>Product type</b>	<b>Year ended 31 December</b>			<b>Six months ended</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>30 June</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>2007</b>
Skincare products	182,871	309,401	339,519	233,697
Colour cosmetics	623	34,262	19,105	10,628

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As at the Latest Practicable Date, we had the following main skincare products and colour cosmetics lines. The products set out below do not represent an exhaustive list of our major retail line products:

### “Marjorie Bertagne” (MB) Skincare Products

#### *GG hEGF Bioactive Aging Defense Program*

GG hEGF Bioactive Aging Defense Program is our anti-aging treatment product, which is designed to mitigate the effects of natural aging. It is formulated with hEGF and helps to accelerate skin cells growth, stimulate the growth of epidermal skin cells, resume the skin’s natural suppleness and radiance, enhance collagen level, tighten skin and reinforce healthy skin conditions. Products under this line include revitalising cleanser, restorative skin softener, age control lotion, anti-age cream, firming eye pack and eye-creams. As at the Latest Practicable Date, we had seven products under this line.



For the six months ended 30 June 2007, sales of this line of product were approximately HK\$38.3 million, representing 14.9% of our total turnover.

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### *Bioactive Facial Enlightening Activator*

Our Bioactive Facial Enlightening Activator products are formulated with hEGF that helps to stimulate the growth of epidermal skin cells, prevent melanin pillar production, lighten pigment spots, whiten and nourish the skin and resume the skin's natural suppleness and radiance. Products under this line include foam cleanser, double lightening fluid, triple whitening cream, instant white exfoliator and luminising moisture pack. As at the Latest Practicable Date, we had 14 products under this line.



For the six months ended 30 June 2007, sales of this line of product were approximately HK\$25.4 million, representing 9.9% of our total turnover.

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### *Bio Aqua System*

Our Bio Aqua System products are specially formulated to regulate moisture level of skin and reduce the deposition of colour pigments. Products under this line include hydrating moisturiser, moisture boosting cream, lifting eye mask, lymphatic activating facial mask and hydra relaxing mask. As at the Latest Practicable Date, we had 10 products under this line.



For the six months ended 30 June 2007, sales of this line of product were approximately HK\$20.8 million, representing 8.1% of our total turnover.

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### *Day & Night UV Expert*

Our Day & Night UV Expert products provide sun-block protection against Ultra Violet A rays (“UVA”) and Ultra Violet B rays (“UVB”) and has a skin whitening effect. It also helps to repair and reduce the formation of melanin. Our products under this line include advanced UV protection expert SPF 50 sunshield emulsion, Sun Protection Factor (“SPF”) 15 silky foundation, SPF 15 hydration fluid and after sun soothing complex. As at the Latest Practicable Date, we had six products under this line.



For the six months ended 30 June 2007, sales of this line of product were approximately HK\$15.7 million, representing 6.1% of our total turnover.



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### *Diamond Series*

Diamond Series comprises our intensive treatment products which are designed to regenerate and recover skin. It is formulated with hEGF and other special ingredients such as nano collagen that give skin a supple firmness and an even complexion. Products under this line include nano collagen recharging cream, intense eye rescue, eye lift serum, advance contour lift serum and absolute effect. As at the Latest Practicable Date, we had eight products under this line.



For the six months ended 30 June 2007, sales of this line of product were approximately HK\$34.4 million, representing 13.4% of our total turnover.

## BUSINESS

### *Purifying Regime*

Our Purifying Regime products are formulated to balance the skin's moisture level and remove excessive oil. It is also formulated to improve skin texture and minimise the skin pores and reduce the chances of developing acne and pimples outbreak. Products under this line include deep pore clarifying cleaning gel, skin balancing lotion, oil free regulating hydrator, acne control solution and deep pore purifying mask. As at the Latest Practicable Date, we had five products under this line.



As we only launched our Purifying Regime products in September 2007, the sales of this line of product have not accounted for our total turnover for the six months ended 30 June 2007.

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### “Marjorie Bertagne” (MB) Colour Cosmetics

We introduced our colour cosmetics in 2002. These products include foundations, lipsticks, eye shadows, blush shades, mascaras, lip shines, loose powders and make-up remover.



For the six months ended 30 June 2007, sales of this line of product were approximately HK\$10.6 million, representing 4.1% of our total turnover.

### Other Private Brand Products Sold and Yet to be Sold

As at the Latest Practicable Date, all of our “Marjorie Bertagne” (MB) skincare products contained hEGF. Save for our “Marjorie Bertagne” (MB) skincare products, we do not use hEGF in any of our other products. We also develop and produce colour cosmetics and personal care products which do not contain hEGF through our in-house product design and development team. These products include toiletries and colour cosmetics under our own private brand names “Face” and “Envita” which will be distributed through international retail outlets. We commenced sales under the brand name of “Face” in September 2007 and we plan to commence sales under the brand name of “Envita” in the first half of 2008.

Another brand, “MB2”, the products of which are toiletries, skincare products and colour cosmetics, will be launched and sold in hypermarkets and cosmetics shops in the PRC in the second half of 2008. We commenced sales under the brand name of “Face” in September 2007 and we plan to commence sales under the brand name of “Envita” in the first half of 2008. We have applied for the registration of trademarks of “Face” and “Envita” and such applications are still in process. For more details, please refer to the paragraph headed “Further information about the business” in Appendix VI to this prospectus. Save for the brand name of “Face”, none of the other private brand products have been distributed or sold. As at the Latest Practicable Date, none of the products developed and produced by us under our own private brand names contain hEGF.

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### ODM and OEM Products

In addition to manufacturing products under our own brand, we are also engaged in the ODM and OEM businesses, under which we design and manufacture skincare products, colour cosmetics and toiletries for our ODM and OEM customers in Europe and the United States. In 2005, we had spare production capacity and gained the ODM and OEM qualification of our ODM and OEM customers. We therefore commenced our ODM and OEM business in June 2005. The products designed and produced by us under our ODM and OEM business do not contain hEGF. As part of our ODM and OEM businesses, our customers are served by our own research and development and sourcing teams of technical experts and experienced merchandisers to enable our customers to enjoy our “One-Stop Service” in terms of research, development and production for high quality products at competitive prices. Our ODM and OEM customers are mainly international chain stores and pharmacists such as Next. For the two years ended 31 December 2006 and the six months ended 30 June 2007, our top five ODM and OEM customers accounted for approximately 99.6%, 98.3% and 99.3%, respectively, of our ODM and OEM turnover.

### RAW MATERIALS

The major raw materials used by us in our production process include packaging materials (including glass and acrylic bottles, carton box and paper), additives and other materials (including emollient, moisturiser, emulsifier, stabiliser and fragrance). Raw materials accounted for approximately 56.8% of our production cost for the year ended 31 December 2006. We usually source our raw materials from our selected suppliers, all of which are independent third parties not connected with our Directors, chief executives or substantial shareholders or any of our subsidiaries, or associates of any of them. We conducted periodic reviews and selected a number of suppliers from the PRC, Asia and the United States based on various criteria including suppliers’ exposure to product liability, reliability of delivery time, price and location, to ensure high quality, reliable and cost-competitive raw material supplies. Our Group used to source raw materials (other than the packaging materials) for the production of its “Marjorie Bertagne” (MB) products from Cosme-Tech, a French cosmetics manufacturing company. For more details, please refer to the section headed “History and Reorganisation — History and Development of the Group” in this prospectus. Our Group ceased to source raw materials from Cosme-Tech in 2002. Save as Cosme-Tech, our Group has never sourced any raw materials from other suppliers in France. During the Track Record Period, our Group has also sourced raw materials from other overseas suppliers in Singapore, Korea, Taiwan, the United States and the United Kingdom for the production of its products. As at the Latest Practicable Date, our Group continues to source raw materials from suppliers in the PRC, Singapore, Korea, Taiwan, the United States and the United Kingdom for the production of its products.

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, our five largest suppliers accounted for approximately 92.7%, 36.4%, 58.6% and 46.2%, respectively, of our total purchases. During the same period, our largest supplier accounted for approximately 46.6%, 10.5%, 14.9% and 14.0%, respectively, of our total purchases. None of our Directors, their respective associates or, so far as our Directors are aware, any of our Shareholders, who own more than 5% of our issued share capital immediately upon completion of the Global Offering, had any interest in any of our five largest suppliers during the three years ended 31 December 2006 and the six months ended 30 June 2007.

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For the three years ended 31 December 2006 and the six months ended 30 June 2007, 95.5%, 98.4%, 94.9% and 89.3%, respectively, of our total raw materials were purchased from domestic suppliers in the PRC and 4.5%, 1.6%, 5.1% and 10.7%, respectively, from overseas suppliers. Our domestic purchases are settled in Renminbi. We generally settle our domestic purchases on open account with 30 days' and 60 days' credit. For overseas purchases, we generally settle our purchases using letters of credit at sight. Occasionally, we settle our overseas purchases by telegraphic transfers.

The following table sets forth the trade payable turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007
	Trade payable turnover days <sup>(1)</sup>	94.2	15.2	51.1

*Note:*

- (1) The calculation of trade payable turnover days is based on the average of the opening balance and the closing balance of trade and bills payables divided by purchases multiplied by 365 days for a year or 182.5 days for six months, as the case may be.

The trade payable turnover days for the year ended 31 December 2004 of 94.2 days was higher than usual primarily due to our plan to launch our professional line in March 2005. We had stocked up finished goods and raw materials at the end of 2004 to cope with the expected demand following the launch.

The decrease of trade payables turnover days from 94.2 days for the year ended 31 December 2004 to 15.2 days for the year ended 31 December 2005 was in line with the decrease in inventory turnover days for the corresponding periods. It was primarily attributable to the fact that most outstanding trade payables were settled before the year ended 31 December 2005 and because during 2005, some of the major suppliers requested for cash on delivery or granted us a credit period of only seven days due to our relatively short trading relationship with them, and our management decided to reduce our order size in order to strengthen our cash flow and minimise business risks. The trade and bills payables balances decreased from HK\$9,653,000 at 31 December 2004 to HK\$728,000 at 31 December 2005.

Trade payables turnover days increased from 15.2 days for the year ended 31 December 2005 to 51.1 days for the year ended 31 December 2006 primarily because we purchased a large quantity of packaging material in the second half of 2006 to replace the packaging material previously written off. Trade payables further increased to 85.7 days for the six months ended 30 June 2007 because the calculation of trade payable turnover days was based on the average of the opening balance and the closing balance of the year or period; the small amount of trade payable of HK\$728,000 at 31 December 2005 lowered turnover days in 2006. The trade payable has in fact decreased from HK\$32.4 million as at 31 December 2006 to HK\$24.4 million as at 30 June 2007.

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We have established business relationships with several of our major suppliers since our establishment and our Directors believe that the stable relationship with those suppliers will ensure that we can continue to source quality raw materials at competitive prices. During the Track Record Period, we had 28 suppliers for packaging materials (glass and acrylic bottles, carton box and paper) and 14 suppliers for additives and other materials (emollient moisturiser, emulsifier, stabiliser and fragrance). The raw materials used by us have been readily available and their prices have been relatively stable since our establishment. Hence, our Directors do not anticipate any major difficulty in sourcing raw materials for our production. During the Track Record Period, we have neither encountered any difficulty in procurement nor experienced any production disruption due to shortage of supply of raw materials. Our Directors believe that there are a large number of alternative suppliers in the market who are capable of supplying all the raw materials required by us. Based on currently available information, there are over 1,000 alternative suppliers in the PRC for each of the major raw materials. In order to maintain our flexibility in sourcing raw materials, we do not enter into any long-term supply contracts with any of our suppliers.

On 20 December 2001, the Parent Company adopted a share option scheme, pursuant to which share options were granted by the Parent Company to our suppliers with a view to rewarding our suppliers for their contributions to our Group and stabilising the relationship with our suppliers. The maximum number of shares issued and to be issued upon exercise of the option granted to any one supplier in any 12-month period up to the date of grant under the share option scheme adopted on 20 December 2001 is limited to 1% of the shares of the Parent Company in issue, unless special approval has been obtained from shareholders in a general meeting of the Parent Company. As at the Latest Practicable Date, there were 7,000,000 share options granted by the Parent Company to the suppliers which remained outstanding under the share option scheme adopted on 20 December 2001. For details of the share option scheme, please refer to the section headed “Financial Information — Share-based payment transactions” in this prospectus.

## PRODUCTION

### Production planning

In order to maintain a sufficient supply of our products at an efficient inventory level, our marketing department coordinates on a regular basis with our production department with a view to plan the production schedule by reference to the annual sales forecast by our marketing department and the existing inventory level monitored by the production department. Our Directors believe that such coordination benefits our Group by minimising our production costs and maintaining an efficient inventory level, and at the same time ensuring our products can sufficiently meet our sales orders.

### Production facilities

We commenced our production of skincare products and colour cosmetics under the brand name of “Marjorie Bertagne” (MB) in the production plant (i.e. the Proamine Plant) in a multi-storey complex of Dongguan Proamine owned by the Parent Group, in Dongguan, the PRC, in 2003. Constituting approximately 25% of the total production area of the complex, the premises for operation of the Proamine Plant was licensed to us free of charge during the Track Record Period. We shared the complex comprising the Proamine Plant only with the Parent Group, and the Parent Group uses the rest of the complex comprising the Proamine Plant for the manufacture of household products including softeners, shampoo, hair conditioners, washing powder and biotechnology products with pharmaceutical applications. Other

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than the bottling, filling and mixing machines which are commonly used in manufacturing business, other machinery used for the production of Dongguan Proamine's products are not the same as that for our products. The Proamine Plant, occupying approximately 1,920 square metres of production space, consists of seven production lines and is capable of producing 1,154.4 tonnes of cream and lotion form, wax form, liquid form and powder form products per annum. We currently use the Proamine Plant at nil consideration. For details, please refer to the section headed "Connected Transactions" in this prospectus. As at 30 June 2007, production from the Proamine Plant accounted for approximately 23% of our Group's total production. The production process performed at the Proamine Plant is similar to those performed at our production facilities owned and operated by us. Our Group is capable of performing the current production process of the Proamine Plant at our other production facilities owned and operated by us. We have gradually shifted our production process from Proamine Plant to our own production facilities and we plan to move our entire production process out from the Proamine Plant within 12 months from the Listing Date. We believe our Group is unable to shift its production process from the Proamine Plant to our own production facilities before Listing as the move of our Group's production facilities will need to be done by stages to minimise disruptions to our Group's production processes. A considerable length of time is also required to allow for disassembly, move, reassembly, calibration and testing of machinery and equipment. We plan to proceed with the relocation by stages with the bulk of the move occurring following our peak production months in December and January.

Other than the Proamine Plant, we currently own and operate three additional production facilities occupying approximately a total of gross floor area of 15,837.63 square metres of a land located in Dongguan, the PRC. Our first production facility, Production Complex No.12, began production in 2005, which consists of nine production lines and is capable of producing 5,812.8 tonnes of cream and lotion form and liquid and bath salt form products per annum. Both our second and third production facilities began production in 2006. Our second production facility, Production Complex No.11, consists of 12 production lines and is capable of producing 1,480.80 tonnes of lipsticks and mascaras per annum, whereas our third production facility, Production Complex No.10, consists of six production lines and is capable of producing 396.0 tonnes of cream and lotion form products per annum.

As at the Latest Practicable Date, a total of 374 employees were assigned to work for these production facilities. We intend to expand our production facilities in the existing land in Dongguan by building additional production lines for our fragrance products.

We also intend to use approximately 3%, or approximately HK\$50 million to finance construction costs of a new production plant and acquisition of new machineries. The new production plant will be used for the production of perfume, which is a new product of our Group.

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The following table sets forth certain information relating to our production facilities in Dongguan, the PRC for the Track Record Period:

Production plant	Estimated annual production capacity		Floor space (in square metres)	Number of production lines	Production volume		Utilisation rate		Principal products	Year operations commenced
	Tonnes	Year			Tonnes	Year	%	Year		
Proamine <sup>(1)</sup> Plant	1,154.40	2007	1,920.0	7	232.4	1H <sup>(4)</sup> 2007	40.3%	1H <sup>(4)</sup> 2007	cream & lotion form, wax form (lipstick & mascara), liquid form and powder form	2003
	1,102.50	2006			431.2	2006	39.1%	2006		
	936.70	2005			336.7	2005	35.9%	2005		
	884.85	2004			144.0	2004	16.3%	2004		
Production <sup>(2)</sup> Complex No. 12	5,812.80	2007	5,450.18	9	794.1	1H <sup>(4)</sup> 2007	27.3%	1H <sup>(4)</sup> 2007	cream & lotion form, liquid form and bath salts form	November 2005
	2,280.80	2006			593.5	2006	26.0%	2006		
	2,280.80	2005			103.5	2005	4.5%	2005		
					—	2004	—	2004		
Production <sup>(3)</sup> Complex No. 10	396.0	2006	4,521.57	6	2.3	1H <sup>(4)</sup> 2007	1.2%	1H <sup>(4)</sup> 2007	powder form	December 2006
					0.7	2006	0.2%	2006		
					—	2005	—	2005		
					—	2004	—	2004		
Production <sup>(3)</sup> Complex No. 11	1,480.80	2006	5,865.88	12	3.8	1H <sup>(4)</sup> 2007	0.5%	1H <sup>(4)</sup> 2007	wax form (lipstick & mascara)	December 2006
					1.1	2006	0.1%	2006		
					—	2005	—	2005		
					—	2004	—	2004		

Notes:

- (1) We commenced production of skincare products and colour cosmetics in the Proamine Plant in 2003. The comparatively low utilisation rate at the Proamine Plant for 2004 and 2005 reflected the early phase of our skincare products and colour cosmetics business when production volume was comparatively low. The Proamine Plant is used exclusively by our Group, and not shared with the Parent Group.
- (2) The utilisation rate for 2005 was low because Production Complex No. 12 was completed at the end of 2005.
- (3) The utilisation rates for 2004 and 2005 were nil because Production Complexes No. 10 and No. 11 were completed at the end of 2006.
- (4) "1H" means first half of the year.

Our overall utilisation of our production facilities is low as we constructed them with a view to cater for future growth of our businesses. However, the utilisation rate for all our production facilities followed a general upward trend due to the growth of our Group's operation during the Track Record Period.

To minimise the disruption of production due to machinery failure, we carry out inspection on all the production machineries on a regular basis.

A sewage system costing approximately HK\$200,000 was installed which is used for the discharge of all waste water. This sewage system is shared by the Parent Group and us. Our Directors consider this sewage system to be adequate in meeting our waste water discharge needs.

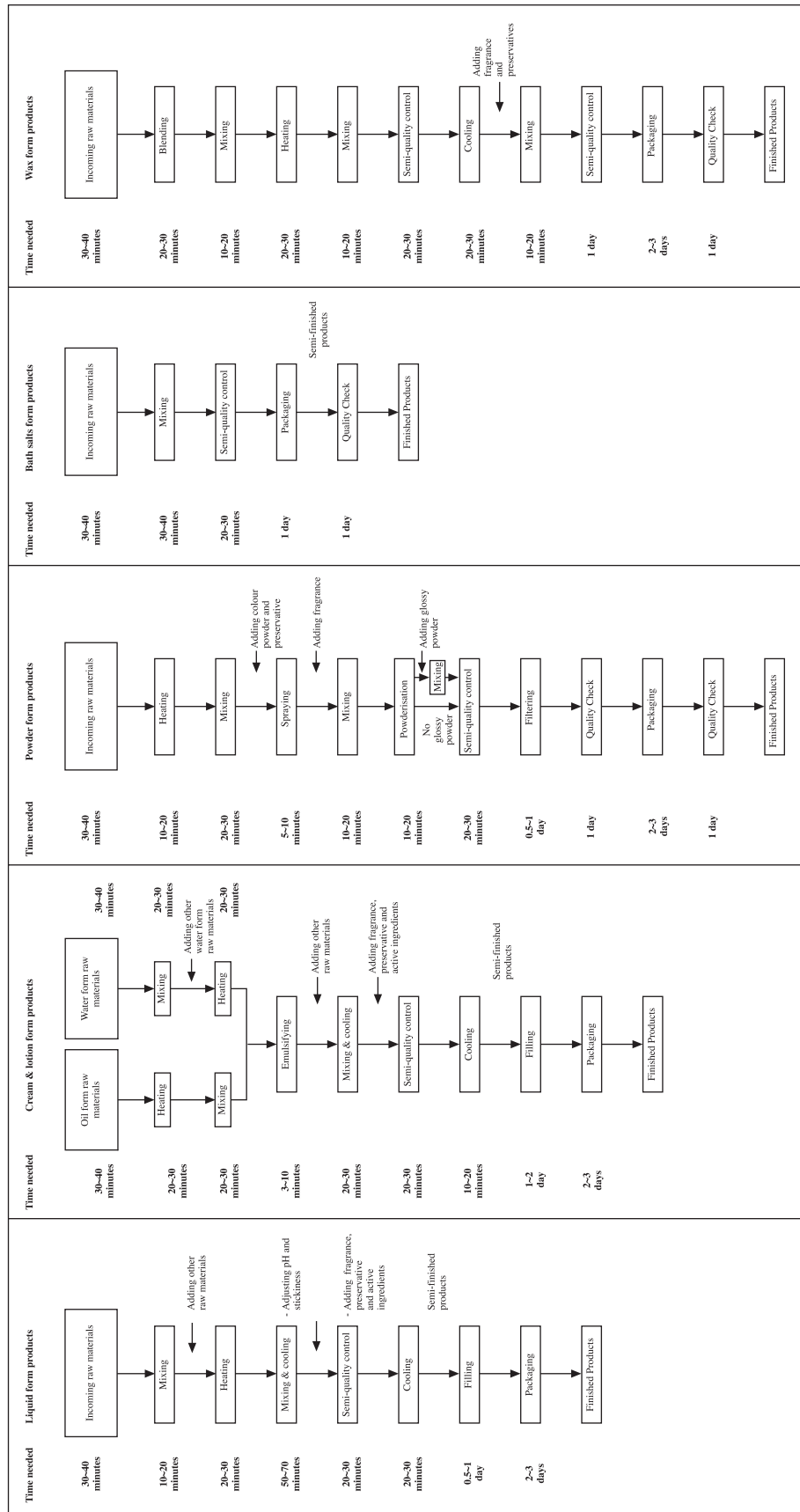


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We have invested a total amount of RMB12,000,000 to set up a sophisticated air purifying system in the Proamine Plant since February 2005 to meet the GMPC standards for the production of certain skincare products and colour cosmetics and the amount was wholly contributed by our Group. Large capital investment is required to install such a system and additional costs need to be incurred in relocating the production facilities which may also cause disruptions to our production process. Our Directors believe that it is in our Group's interest to temporarily continue to use the Proamine Plant despite the fact that the overall utilisation rate of our production facilities is low, until the air purifying system needs to be replaced due to wear and tear and/or a new system is required to be set up due to the change on GMPC standards. We have installed air purifying systems in all our production facilities and all such facilities comply with GMPC standards. Our Directors estimate that the useful life of an air purifying system, with continuous and proper repair and maintenance, is five to 10 years.

## Production process

The following diagrams summarise the major steps in the production of our products:



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The sequence of the various production stages may differ for different types of products but the key steps are set out below:

*Raw material preparation:* All raw materials are inspected according to their respective labeling, categories and quantities. Detailed quality analysis is conducted based on random sampling.

*Mixing:* We mix different raw materials in accordance with specified formulae. The mixing time and sequence of adding raw materials are different in the mixing process in respect of different forms of products.

*Heating:* A process to ensure that the raw materials are melted for further mixing. The mixture is normally heated up to around 80°C for all forms of products except for bath salts form products.

*Semi-quality control:* After further mixing, the Quality Control Department takes sample of the semi-finished products to ensure that the required standards are met before further processing.

*Filling and packaging:* Other than liquid form and lotion form products which required cooling after semi-quality check, we package our products in a sterile environment to avoid contamination. After packaging, all products undergo various final tests and inspections.

## RESEARCH AND DEVELOPMENT

In order to maintain our competitive edge, we place a strong emphasis on research and development with a view to improving the quality of our existing products and developing new products. As at the Latest Practicable Date, our research and development team comprised 29 members and consultants with experience and expertise in several areas, in particular, skincare products, colour cosmetics, pharmacy and bio-chemistry. Our research and development team is led by Mr. Chu Wai Tak and Mr. Siu Chu Sin. For details of their qualifications, please refer to the section headed “Directors and Senior Management” in this prospectus. Our research and development team members have on average approximately 5.6 years of experience and the majority of them possess undergraduate or higher degrees in biology, chemistry or biochemistry. Our Directors believe that the collaboration of different expertise and experience within the team enhances the development of quality skincare products and colour cosmetics.

To strengthen our research and development, we have cooperated with Jinan University Biotechnology Engineering Institute\* (暨南大學生物工程研究所) (“JNUBEI”) to conduct research on different growth factor and inhibition factor ingredients such as bFGF and KGF for possible use in our future products.

According to the Letter of Intent for Cooperation dated 17 May 2005 entered into between Global Cosmetics (China) and JNUBEI, the parties thereto agreed, inter alia, as follows:

- (a) Global Cosmetics (China) will be responsible to pay for all research and development expenses incurred under this agreement;

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- (b) Global Cosmetics (China) is entitled to the intellectual property rights of the production know-how (工藝技術), the method (路線), theories (理論) and equipment know-how (裝備技術) developed by JNUBEI in the course of the research requested by Global Cosmetics (China) under this agreement; and
- (c) For research jointly conducted by Global Cosmetics (China) and JNUBEI, Global Cosmetics (China) and JNUBEI will jointly own the intellectual property rights of the achievements, and neither party is entitled to use the achievements without the consent and paying economic compensation to the other party.

As at the Latest Practicable Date, as requested by our Group, JNUBEI was still in the process of conducting research on bFGF and KGF. It is expected that the relevant research will be completed in the year of 2010. We plan to apply for the registration of patents for the formulation containing active ingredients such as bFGF and KGF after the research on such active ingredients is completed.

We place significant emphasis on ongoing market research to maintain a high degree of sensitivity and responsiveness to changes in consumer preferences and market trends. Such market research is crucial to the success of the development of our new products and/or revision of our current products formulae. The ongoing market research undertaken by us involves gathering and analysing consumer feedback and/or feedback from our selected distributors, and other valuable information such as market trend forecasts made by leading industry experts, international market research groups or periodical trade journals and industry reports on the latest advanced technologies and newly discovered effective ingredients. Our management team also visits international skincare products and colour cosmetics exhibitions regularly to gather important market information such as market trends and consumers preferences.

We also undertake a product rationalisation process which involves critical review of our current product lines, analysing the most and least profitable products and identifying new products worth developing with reference to market research, positioning and pricing. Thereafter, we will conduct experiments with selected active ingredients to derive the formulation for a product. Further experiments will be conducted to test the effectiveness of the product for its specific functions. No animals were used for testing by us during our research and development process and before we launch our new products.

In developing new products, updated market information is gathered and our research and development team will discuss with our marketing team the product concepts, features and functions of the new formulation taking into account the likely preferences of our target consumers. Based on our management team's understanding of the market trend and consumers preference, our design and purchasing teams jointly decide on raw material purchasing, packaging design, perform cost analysis and budget estimates to ensure successful product development. A critical review of the product design, features and functions of the new product will follow after the first sample of the product is available to determine whether it is likely to meet the requirements of target consumers. Before launching a new product, the prototype of new products will be sent to our laboratory for in-house testing. Such in-house testing includes (i) heavy metal test which is to ensure that the level of certain heavy metallic substances such as mercury and lead does not exceed the required standard; (ii) stability test to ensure that the stability of product formulation under certain conditions such as extreme temperature and humidity; (iii) testing the moisturising and whitening effect of a product against benchmarks; (iv) allergen test which is to ensure the product does not cause allergy to human skin; (v) physical test to ensure that the physical properties

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of a product such as stickiness, colour and texture meet the required standards; and (vi) microbiology test is to ensure the level of micro-organisms in the products does not exceed the required standards, and distributed to our distributors for testing by selected beauty professionals at the health and beauty salons, or by other suitable persons elected by our distributors. In accordance with the outcome of these tests, we may make refinements or modifications to the products. We take an average of six months to develop a new product.

We plan to develop the following growth factor and inhibiting factor ingredients in the near future:

- *bFGF* — we believe it helps heal wound, strengthens skin's elasticity by inducing the synthesis of collagen and elastin and helps blood circulation.
- *KGF* — we believe it reduces and prevents lines and wrinkles by encouraging new skin cells growth, refine texture glides and brightens the skin.

We plan to use bFGF and KGF ingredients in our products in the future.

For the three years ended 31 December 2006 and the six months ended 30 June 2007, the total expenses incurred by us for research and development, including the gathering of market information and salaries paid to our research and development team by our Group, amounted to HK\$3,473,000, HK\$1,092,000, HK\$6,544,000, HK\$851,000, respectively. No research and development costs was capitalised during the Track Record Period.

Our research and development costs accounted for approximately 1.9%, 0.3%, 1.6% and 0.3%, respectively, of our turnover for each of the three years ended 31 December 2006 and the six months ended 30 June 2007.

Our research and development costs accounted for approximately 5.7%, 0.7%, 4.3% and 1.5%, respectively, of our cost of goods sold for each of the three years ended 31 December 2006 and the six months ended 30 June 2007.

We expect to maintain our total spending on research and development at 1% to 2% of our total turnover in the future and will finance it by cash generated by operation. The level of spending will be varied according to the number of new products and ingredients being developed.

## QUALITY ASSURANCE AND CONTROL

We have developed our own set of quality control standards for each critical step of production which, in many respects, exceed the standards in our industry. For example, we maintain a more stringent bacteria and mould standard in our production of lip balms than that of the industry. We adhere to strict quality control procedures with an aim to identify, analyse and solve problems at the early stage of the manufacturing process. We adopt the GMPC standard which sets out the recommended practices for the manufacture of skincare products and colour cosmetics in accordance with the guidelines published by the European Union and U.S. Food and Drug Administration. Intertek, an international firm which specialises in testing, inspection and certification of products, commodities and systems, including GMPC process certification, granted us the GMPC certification and reviews our production facilities twice a year to

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ensure that we are in compliance with the guidelines published by the European Union and U.S. Food and Drug Administration. Intertek will advise us the areas in our production facilities which need improvement during the course of its review and keep monitoring our implementation before they renew our certification each year. Under guidance of Intertek, our Group keeps itself updated from time to time of the guidelines published by the European Union and U.S. Food and Drug Administration.

Our Directors believe that our commitment to a high level of quality control has been one of our key success factors. We obtained the ISO 9001 production certification for the effectiveness of our quality control measures. Quality control mechanisms implemented include stringent controls on hygiene and quality in relation to raw materials, production process and finished products. Our quality assurance and quality control departments consist of approximately 53 members including chemists, biologists, engineers and technical persons who regularly set up, operate, monitor and refine our quality control system and all related operation procedures. Our quality assurance department is headed by Mr. Poon Wai Man Raymond. For details of his qualifications, please refer to the section headed “Directors and Senior Management” in this prospectus. In order to continuously improve our quality standards, our staff undergo intensive and relevant training to improve their know-how. In accordance with our quality control requirements, we consistently implement quality control checks at every stage of production and we also undertake systematic record-keeping and documentation reviews. To ensure that we maintain high quality standards, our quality control team has adopted the following quality control procedures:

- all incoming raw materials are inspected and all incoming ingredients are accompanied with certificates of analysis issued by our suppliers certifying that they meet our production and quality requirements. This ensures that the raw materials purchased meet our specifications and quality standards before being used for production. All incoming raw materials are stored in a designated area with restricted access.
- all work-in-process is subject to on-going quality control monitoring by our quality control team stationed at each production facility, including cleaning and sanitisation of working area and equipment, personnel hygiene, ingredients handling, ingredient processing and packaging.
- product quality related data is recorded and quality analysis is regularly carried out by our quality assurance team for each production line. This enables us to take prompt action if any manufacturing problem occurs, thereby minimising disruption to the entire production process.
- products are inspected by our quality control department before packaging.
- All finished products are inspected and approved by our quality control department before despatch to the customers.

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Given the quality control procedures implemented by our Group in the research and development phase and the production process to safeguard the quality of our products, our Directors believe that our products have attained a satisfactory quality standard. Our customers include ODM and OEM customers from the United States and European markets, which maintain stringent requirements. We are able to consistently meet their required standards as demonstrated by our ability to procure orders from those overseas customers. Moreover, we send our product samples to our chemical and microbiology laboratories, which are equipped with modern testing facilities, for testing before launching such products to the market for sale. Our Directors consider that the existing quality control procedures implemented by us have effectively minimised our exposure to product liability. In addition, annual quality auditing is conducted by our quality assurance department to ensure that the GMPC standard is being effectively implemented within the production facility. All audit findings and deficiencies are rectified within a stipulated time frame and our quality assurance team is responsible for ensuring that all non-compliance and deficiencies are rectified.

During the three years ended 31 December 2006 and the six months ended 30 June 2007, save for six complaints relating to the condition of our products such as damage to the cosmetics bottles and outer packaging caused during delivery, we did not receive any complaints resulting in the incurrence of any loss and damages in respect of product defects. Our Directors confirm that our Group has not received any complaints and claims known to us (including claims that may have been made to any relevant institutions) in relation to the sales in Hong Kong. We have set up quality control measures and monitor the quality of our products at all stages from incoming raw materials to finished goods. Defective raw materials will not be used for production, and semi-finished goods as well as finished goods are inspected before packaging and dispatch to customers. Our Directors consider that such measures effectively minimise the rate of defective products or sales return. We have purchased product liability insurance for our business. As advised by our PRC legal advisers, Guangdong Harbour Law Firm, our Directors confirm that there were no product liability claims in the PRC against our products during the three years ended 31 December 2006 and the six months ended 30 June 2007. We are advised by our legal advisers as to Hong Kong laws that based on the litigation search results obtained by our legal advisers as to Hong Kong laws on 3 October 2007, our Directors confirm that there were no product liability claims in Hong Kong against our products during the three years ended 31 December 2006 and the six months ended 30 June 2007.

### INVENTORY CONTROL

We have developed an inventory cycle plan and a manufacturing plan to ensure that we maintain systematic control over our level of inventory. Our production department is responsible for implementing such plans as well as preparing and reviewing our production schedules. In discharging its functions, our production department is required to collect information on sales orders from our marketing department, coordinate with the corresponding production departments and review the stock levels on a regular basis and monitor the production progress. For the purpose of improving efficiency in inventory control, we have built a computer-based inventory control system to facilitate the planning and allocation of warehouse space and stock of raw materials and finished products so as to coordinate with delivery requirements and schedules. To avoid a supply shortfall, we have a policy to maintain an appropriate level of raw materials and finished products. In order to reduce stock-ageing problems, we employ a first-in-first-out inventory management policy. Most of our skincare products and colour cosmetics can be kept for an average period of three years from the date of manufacture. Save for packaging which is no longer in use due to change of design, our raw materials are not generally susceptible to obsolescence by passage of time and can be kept for three to four years.

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We perform specific review for each type of inventory regularly and make specific provision for obsolete inventories identified. We carry out a full inventory check semi-annually. In addition, we also conduct monthly rotational inventory checks, and unscheduled inventory checks.

When our finished goods are delivered to the distributors or the points of sales, those finished goods will cease to be our inventory as title of those goods have been passed.

The following table sets forth our inventory turnover days for the Track Record Period:

	Year ended 31 December			Six months ended 30 June 2006	Six months ended 30 June 2007
	2004	2005	2006		
	<i>(unaudited)</i>				
Inventory turnover days <sup>(1)</sup>	103.3	27.9	25.3	72.9	61.7

*Note:*

- (1) The calculation of inventory turnover days is based on the average of the opening balance and the closing balance of inventories divided by cost of goods sold multiplied by 365 days for a year or 182.5 days for six months, as the case may be.

The inventory turnover days for the year ended 31 December 2004 of 103.3 days was relatively higher than usual, primarily due to our plan to launch our professional line in March 2005. We had stocked up finished goods and raw materials at the end of 2004 to cope with the expected demand following the launch.

The decrease of inventory turnover days from 103.3 days for the year ended 31 December 2004 to 27.9 days for the year ended 31 December 2005 was primarily attributable to the fact that our management decided to have more working capital made available and sought to minimise the inventory on hand. Although we have purchased a large quantity of packaging materials in the second half of 2006 to replace some of the packaging materials written off by us, our inventory turnover days remained stable for the year ended 31 December 2006 as compared to the year ended 31 December 2005, because we have utilised most of the packaging materials purchased in the production process and sold most of the finished goods produced. The total inventory was HK\$10,429,000 and HK\$10,539,000 for the two years ended 31 December 2006, respectively. Inventory turnover days increased from 25.3 days for the year ended 31 December 2006 to 61.7 days for the six months ended 30 June 2007, primarily due to the accumulation of finished goods and raw materials at the end of the first half of 2007 to cope with the expected peak season in the second half of 2007. For illustrative purpose, the inventory turnover days for the six months ended 30 June 2006 was 72.9 days.

We do not have a general policy on provisions for obsolete inventory but would consider the need for a specific provision on a case-by-case basis. As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, full provision had been made for all obsolete inventories identified by our specific review, amounting to approximately HK\$1,924,000, HK\$7,227,000, HK\$5,313,000, and HK\$5,425,000, respectively.



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For the three years ended 31 December 2006 and the six months ended 30 June 2007, provision or write-off for inventory obsolescence charged to income statement were approximately HK\$1,924,000, HK\$5,301,000, HK\$35,543,000 and nil, respectively. For the year ended 31 December 2005, the reversal of allowance for inventories credited to the income statement as other income was HK\$53,000. The amount represents the over-provision for allowance for inventories of one of the members of our Group for the year ended 31 December 2004 because some raw materials which were fully provided in 2004 were usable for our production during the year ended 31 December 2005. No other reversal of allowance for inventories was made during the Track Record Period. For the year ended 31 December 2006, the write-off of inventory of HK\$35,543,000 was made up by a write-off of raw materials of HK\$21,324,000 and a write-off of finished goods of HK\$14,219,000 mainly due to changes in formulation, image and packaging material. In 2006, the management decided to change the packaging material of two product lines namely, the GG hEGF Bioactive Aging Defense Program and Bio Aqua System, from glass to acrylic. The change was made because acrylic was light in weight, cheaper in cost and its use was the latest trend. In addition, we were able to locate several reliable acrylic suppliers in the PRC. During the same period, we also decided to change the formula and image of our Oil Balancing product line, which we no longer produce, and re-launch such product line under a new product line with new formulation namely, the Purifying Regime, to better fit the market needs. The Purifying Regime is different from the Oil Balancing product line in that it consisted of hEGF and was less acidic than the Oil Balancing product line. The containers of the Oil Balancing product line were also made of glass. We decided to utilise bottles that were more trendy and fashionable. We started the use of acrylic as containers and stopped the sales of old products, so that we could minimise the time of two different containers co-existed for the same products in the market to avoid confusion, and also sped up the process of unifying the use of acrylic packaging materials. Please refer to the section headed “Financial Information — Inventory Analysis” in this prospectus for details of our write-off for inventory obsolescence.

Our Group manages to alleviate any concerns associated with the accumulation of inventories at points of sales or with distributors by (i) frequently communicating with distributors and visiting some of the points of sales; (ii) encouraging distributors to make frequent yet small orders; and (iii) conducting promotional activities together with the distributors (such as offering free samples to customers) to encourage the sale of slow moving inventories.

### SALES, MARKETING AND PROMOTION

Currently, our Group’s targeted end customers are principally white collar women with medium to high income, female entrepreneurs and affluent housewives. Taking into account the nature of the consumer market, we believe that high product penetration rate and wide geographical coverage are the keys to increasing sales of skincare products and colour cosmetics. We distribute our “Marjorie Bertagne” (MB) products to our distributors who are responsible for distributing our products in the PRC, Hong Kong and Macau through a sales network of approximately 1,252 points of sales. These distributors are our customers and not our employees.

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We invested in the dedicated counters in the department stores and brand image stores, which provide retail sale of our “Marjorie Bertagne” (MB) products and health and beauty services using our “Marjorie Bertagne” (MB) products, by paying for the design and set up costs. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007 design and set up costs of dedicated counters incurred by us were approximately HK\$5,823,000, HK\$3,909,000, HK\$7,276,000 and HK\$3,911,000, respectively. We have limited control over our distributors. We retain certain operational control over the running of these dedicated counters and the brand image stores although we do not own these dedicated counters and brand image stores. For more details, please refer to the section headed “Business — Sales and Distribution Channels” in this prospectus. Apart from dedicated counters and brand image stores, points of sales such as cosmetics shops, specialty shops and health and beauty salons are owned by distributors selling our “Marjorie Bertagne” (MB) products and also skincare products and colour cosmetics of other brands and we have no control over such points of sales.

As at the Latest Practicable Date, we had invested in three brand image stores in the PRC. We plan to open approximately 200 brand image stores in the PRC within the next four years.

For the overseas markets, we design and develop skincare products and colour cosmetics for our ODM customers in Europe and the United States, and produce skincare products and colour cosmetics for our OEM customers in Europe and the United States. We enter into confidentiality agreement with most of our ODM and OEM customers, which imposes restrictions on us to disclose certain confidential information received by us from our ODM and OEM customers to any third party unless prior consent is obtained from our ODM and OEM customers. We commenced our ODM and OEM business in 2005. Our current international marketing strategy focuses on the expansion of our ODM and OEM business. For the two years ended 31 December 2006 and the six months ended 30 June 2007, revenue generated from overseas ODM and OEM and other product sales was approximately HK\$8,302,000, HK\$50,855,000 and HK\$12,573,000, respectively and accounted for approximately 2.4%, 12.4% and 4.9%, respectively, of our revenue. As an ODM and OEM supplier to multi-national corporations, our sales and marketing efforts have focused on the provision of competitive prices, reliable and timely delivery, and quality products and services. Our marketing team is responsible for devising strategic marketing plans for promoting our products to our major customers and respond promptly to their particular needs and requirements.

As at the Latest Practicable Date, our marketing and advertising team comprised over 80 staff. Our marketing and advertising team has worked closely with our distributors to determine our sales strategy, identify new business opportunities and promote our products. The team is also responsible for collecting product feedback from health and beauty salons and dedicated counters.

We rely on advertising and promotional activities as key marketing channels to increase consumer awareness of our “Marjorie Bertagne” (MB) brand products.

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We focus our media advertising by using female celebrities as spokespersons for our Group.

<u>Spokesperson</u>	<u>Term of contract(s)</u>	<u>Products promoted</u>	<u>Services provided by the spokesperson</u>
1. Ms. Rosamund Kwan (關芝琳小姐)	commencing from 1 March 2005 to 28 February 2007	All “Marjorie Bertagne” (MB) products	- promoted our “Marjorie Bertagne” (MB) products through outdoor billboards and advertising on television - attended our promotional campaign
2. Ms. Charlie Young (楊采妮小姐)	commencing from 1 August 2007 to 31 July 2009	All “Marjorie Bertagne” (MB) products	- promoted our “Marjorie Bertagne” (MB) products through advertising on television and advertising and promotional materials - attended our promotional campaign

As a result of our aggressive advertising and promotion efforts, such as sponsorship of the Miss Hong Kong Pageant 2002 and 2003 and engagement of Ms. Rosamund Kwan and Ms. Charlie Young as our spokespersons, we believe we have successfully established the brand awareness for the “Marjorie Bertagne” (MB) name in the PRC, Hong Kong and Macau, and that our growth and development can be attributed to strong brand awareness in the PRC, Hong Kong and Macau. We have developed our brand name through the marketing and promotion strategies, such as the promotion of celebrities as our spokespersons, sponsorship of television programmes and advertising campaigns through a variety of media including product launch, press conferences, television commercials, billboard posters, newspapers and magazines. We were also elected among several other skincare products enterprises to be one of the sponsors to the Miss Hong Kong Pageant 2002 and 2003.

In addition to advertising, we actively seek to increase consumer awareness of our products and our brand name through various other consumer-oriented promotions. For example:

- customers who have purchased our products are invited to become a customer member. Once becoming our customer member, such customers are entitled to receive monthly newsletters which amongst others, provide information of our new products as well as products with special promotion for the month. Newsletters are particularly welcomed by customer members because apart from being invited to purchase our products with special privileges, customer members enjoy exclusive and individualised attention from us.
- customer members also have a chance of receiving complimentary products at their choice as gifts. This enables customers to experience new products free-of-charge which may subsequently arouse his or her interest to purchase more of such product.

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- we conduct seminars at universities with a number of doctors invited to introduce the benefits of using of hEGF. The students attending the seminars are given discount coupon to purchase our products.
- we give promotional discounts and special offers on a selective basis such as when launching new products and at special events such as roadshows.

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007 advertising and promotional expenses incurred by us were approximately HK\$19,203,000, HK\$31,626,000, HK\$25,842,000 and HK\$15,450,000, respectively and accounted for approximately 10.5%, 9.0%, 6.3% and 6.0%, respectively, of our total turnover.

### SALES AND DISTRIBUTION CHANNELS

We do not sell our “Marjorie Bertagne” (MB) products directly to consumers but rely on our distributors to distribute our products in the PRC, Hong Kong and Macau through a sales network of approximately 1,252 points of sales. These points of sales are segmented into five channels: (i) brand image stores, (ii) dedicated counters in department stores, (iii) cosmetics shops, (iv) specialty stores and (v) health and beauty salons. As at 30 September 2007, our “Marjorie Bertagne” (MB) products were sold at 208 dedicated counters, five brand image stores, 369 cosmetics shops, 69 specialty shops and 601 health and beauty salons. We sold our “Marjorie Bertagne” (MB) products through five distributors in 2004 and 2005, and 16 distributors in 2006. The reason for the increase in the number of distributors engaged by our Group from 2005 to 2006 was due to the Directors’ perceived need to expand our market coverage and speed up our market penetration into second- and third-tier cities. For our “Marjorie Bertagne” (MB) products, all our sales are made directly to our distributors and we do not have any wholesale operations. Our retail operations are run by our distributors under our supervision.

We invested in the dedicated counters in the department stores and brand image stores, which provide retail sale of our “Marjorie Bertagne” (MB) products and health and beauty services using our “Marjorie Bertagne” (MB) products, by paying for the design and set up costs. Our distributors are responsible for the upfront fees in relation to the dedicated counters to be paid to the department stores which include costs incurred in securing such counter space and rental deposits for these counters. Under the distribution agreements with our distributors, we retain certain control over the dedicated counters and brand image stores and we manage our distributors and the dedicated counters and brand image stores operated by these distributors through various measures, including:

- (a) *Retail pricing.* We adopt a unified retail pricing policy in the PRC and, Hong Kong and Macau, respectively with discounts offered to our distributors based on the retail prices set by us. No profit sharing arrangements have been made between us and our distributors.
- (b) *Brand image at retail outlets.* We aim to create a unique image for retail outlets, namely dedicated counters and brand image stores through the use of unified decoration and designs distinctive to our products and brand portfolio.

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- (c) *Dedicated counters and brand image stores location.* We seek to ensure that there is no over-concentration of dedicated counters and brand image stores within any designated area which may cause material competition among these counters and stores. Any expansion plan such as opening and location of dedicated counters or brand image stores operated by our distributors and must be approved by us prior to implementation. We also retain control over the closing of existing dedicated counters or brand image stores, even though we do not own such counters and stores.

Apart from dedicated counters and brand image stores, points of sales such as cosmetics shops, specialty shops and health and beauty salons are owned by distributors selling our “Marjorie Bertagne” (MB) products and also skincare products and colour cosmetics of other brands and we have no control over such points of sales.

As at the Latest Practicable Date, we had invested in three brand image stores in the PRC. We plan to open approximately 200 brand image stores in the PRC within the next four years. The brand image stores are intended to sell only “Marjorie Bertagne” (MB) products and provide health and beauty services using only our “Marjorie Bertagne” (MB) products.

We have no direct relationship with the end customers. Our “Marjorie Bertagne” (MB) products are sold to the end customers through the distributors. We had five, five, 16 and 16 distributors in the PRC as at 31 December 2004, 2005, 2006 and 30 June 2007, respectively, among which four of them have served with our Group throughout the duration of the Track Record Period and were amongst the top five customers of our Group in terms of sales for the three years ended 31 December 2006. Two of our distributors which entered into distribution agreements with us in 2006 has become amongst our top five customers as at 30 June 2007. All these distributors were entities incorporated in the PRC which are principally engaged in the trading of skincare products and colour cosmetics and they have two to five years of relationship with our Group. To the best knowledge of the Directors and having made all reasonable enquiries, each of the distributors\* and their respective associates are third parties independent of our Company and its associates. As at the Latest Practicable Date, we had appointed 16 distributors to distribute our “Marjorie Bertagne” (MB) products in the PRC. Sales through distributors is an industry practice in the PRC and Hong Kong. Sales to distributors will be on-sold to end customers. Our sales are made on an outright and non-recourse basis. We pass the title of our products to our distributors when they are delivered to the points of sales.

We consider the creditworthiness, financial background, industry experiences and management and manpower of the candidates when selecting the distributors. We supervise and manage the performance of the distributors by sending our zone managers or supervisors to visit the dedicated counters operated by the distribution agents on a regular basis. In addition, our sales and marketing team also monitor the sales performance of the distributors selling our retail and professional products on a monthly basis whereby the distributors are required to report their sales figures to us upon our request. We will then check the accuracy of the sales performance of our distributors by reconciling the reported sales figures with the sales we made to them for the month. Should there exist material discrepancy, our sales and marketing team will further discuss with the respective distributors.

\* *Lui Wai Mui Grace held the entire share capital in one of the distributors in 2004 (recording sales of HK\$39.0 million which represented approximately 21.3% of our Group's sales during 2004), which time was prior to her becoming a Director.*

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We enter into standard distribution agreements with our distributors in the PRC with favourable pricing and adjustment structures, which require them to distribute our designated products in designated distribution areas. All of these contracts contain agreed targets in respect of sales and market coverage for each of our distributors. Under the standard distribution agreements, distributors are required to deposit guarantee payments to our designated bank account before delivery of goods. The annual target purchase amounts vary among different distributors. We have the right to terminate a distribution agreement if the relevant distributor sells the products beyond its designated region or if it fails to meet the agreed purchase amount. Our standard distribution agreements usually have a term of one year and are renewable on a yearly basis. In 2006, we started to adopt a guarantee payment policy. Under such policy, distributors are required to pay us a lump sum ranging from RMB30,000 to RMB900,000 to guarantee their obligations. Such sum is determined with reference to the distributors' respective annual target purchase amounts calculating at 1% of the annual target purchase amount and distributors are required to make the guarantee payment upon signing of the distribution agreements. This sum will be forfeited if the distributors sell products outside their designated areas. No guarantee payment has been forfeited during the Track Record Period. The total balances of the guarantee payments during each of the three years ended 31 December 2006 and the six months ended 30 June, 2007 are nil, nil, HK\$4,240,000 and HK\$4,240,000, respectively. The guarantee obligation varies from one distributor to another distributor and we determine the guarantee obligation of each distributor by reference to the duration of the business relationship with such distributor.

We take into account of the distributors' respective past sales records, and populations, income levels and consumption levels of the designated distribution regions when setting the monthly and annual sales targets with our distributors. We may reduce the market or geographical coverage of a distributor when we renew the distribution agreement with the distributor for the following year, in the event that it fails to achieve the agreed sales targets. Our distributors are responsible for any unsold or perished products and recovery of default payments by end customers. We cooperate with our distributors to advertise and market our products. Under our standard distribution agreement for retail line products, the distributors are responsible to set up a marketing team for promotion of our "Marjorie Bertagne" (MB) retail line products. We are responsible to design and set up the dedicated counters for our distributors, provide local and state sales support to the distributors including the provision of promotional gifts, carrying out promotional and advertising campaigns, provide training to the distributors' sales staff and assist the distributors to run a one-week promotional campaign twice a year. Under our standard distribution agreement for professional line products, the distributors are responsible to set up a marketing team for promotion of our "Marjorie Bertagne" (MB) professional line products, whereas we are responsible to place advertisements in the professional beauty magazines and provide training to the brand managers and beauty technicians of the distributors in order to help the distributors to develop the local market. Our distributors are allowed to operate and sell our products under the "Marjorie Bertagne" trademark and the operation of health and beauty salons, shops and dedicated counters under the trade name of "Marjorie Bertagne". No licensing fee is payable by the distribution agents for the use of the "Marjorie Bertagne" trade name in their health and beauty salons, shops and dedicated counters.



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Our distributors are required to follow our pricing guidance, and if we decide that any price changes are necessary, we will notify them promptly. Any products ordered by our distributors must be paid upon delivery. Our selling price to our distributors is determined at a fixed and unified discount rate to the retail price as specified in the distribution agreements and under no circumstances will our distributors be given any special discounts. No commission is payable to the distributors under the distribution agreements. When our products are delivered to the distributors, those products will cease to be our inventory as title of those goods has been passed.

We do not adopt sales return policies to distributors nor our ODM and OEM customers. However, we adopt a goods exchange policy to distributors, which enables the distributors to exchange slow moving products, or products which are sold infrequently within one year, to fast moving products, or products which are sold frequently within a certain period of time. Such exchange policy is limited up to 10% of the purchase price of each purchase order, and any unused limit can be accumulated for one calendar year. The goods exchanged under the goods exchange policy amounted to RMB55,000, RMB49,000, RMB30,000 and RMB14,000, respectively, and accounted for 0.03%, 0.01%, 0.01% and 0.01%, respectively, of the total sales to the PRC distributors during the Track Record Period.

In Hong Kong, we sell our products through the dedicated counters in department stores and health and beauty salons run and operated by Cristal Marketing. We do not own such dedicated counters, and health and beauty salons. Cristal Marketing is our sole distributor in Hong Kong. According to a distribution agreement entered into between Global Cosmetics (HK) and Cristal Marketing on 18 September 2004, Cristal Marketing may distribute our products in the South East Asia area including Taiwan, Thailand, Japan, Singapore, Malaysia and all parts of the PRC. The distribution area was modified to exclude all parts of the PRC and Taiwan pursuant to a new distribution and licensing agreement entered into between the same parties on 3 August 2007. Cristal Marketing has not been engaged in the distribution of our “Marjorie Bertagne” (MB) products in the PRC. In the past, Cristal Marketing has, through certain sub-distributors, arranged for distribution of some of our products to Taiwan but Cristal Marketing has ceased to distribute our products to Taiwan from April 2007 and has no present intention to re-explore the Taiwan market in the future. Therefore, the change of distribution regions of Cristal Marketing did not affect our Group in the selection of distributors during the Track Record Period. Cristal Marketing was granted the exclusive non-transferrable right to sell and distribute our products under the brand name of “Marjorie Bertagne” (MB) in South East Asia areas including Hong Kong, Macau, Thailand, Japan, Singapore, Malaysia but excluding all parts of the PRC and Taiwan pursuant to the new distribution and licensing agreement. The agreement took effect on 3 August 2007 and is for a term of three years.

Other changes to the terms and conditions under the new distribution agreement with Cristal Marketing include:

- (a) Global Cosmetics (HK) is entitled to charge a licensing fee for use of the “Marjorie Bertagne” (MB) trade marks or the trade name by Cristal Marketing at any time at such amount to be agreed between the parties. No such right was given to Global Cosmetics (HK) under the previous agreement.

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- (b) Under the previous agreement, it was agreed that Global Cosmetics (HK) shall pay the rent, occupation fee and all outgoings for such premises where Cristal Marketing carries on the business contemplated under the previous agreement. Under the new distribution agreement, such rent, occupation fee and outgoings shall be borne by Cristal Marketing.
- (c) Under the new distribution agreement, Cristal Marketing shall obtain the prior written consent of Global Cosmetics (HK) before entering into any agreement for renting, acquiring or obtaining the license to use any premises for the purpose of carrying on the business contemplated under the new distribution agreement. There was no such provision in the previous agreement.
- (d) It was expressly provided under the new distribution agreement that the wholesale price payable by Cristal Marketing under the new distribution agreement shall be no less favourable to Global Cosmetics (HK) than those extended by Global Cosmetics (HK) to independent third parties. There was no such provision in the previous agreement.

For the three years ended 31 December 2006 and the six months ended 30 June 2007, our sales to Cristal Marketing accounted for approximately 7.4%, 2.5%, 1.9% and 1.0%, respectively, of our total turnover.

Cristal Marketing is wholly-owned by Mr. Leung Hung Fai, an independent third party, through Supreme China Limited, a private company incorporated in the BVI. Apart from acting as our distributor, Cristal Marketing is also engaged in the operation of health and beauty salon business.

Immediately upon completion of the Global Offering, Cristal Marketing will hold approximately 7.45% of our issued share capital, assuming the acquisition is completed and the Over-allotment Option is not exercised. To the best knowledge of our Directors, having made all reasonable enquiries, save for Cristal Marketing's shareholding interest in our Company, Cristal Marketing is not concerned or interested, either directly or indirectly, in the supply of any toiletries, cosmetics, health care products and body care products in the PRC and Taiwan.

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the amounts of sales to Cristal Marketing was HK\$13,566,000, HK\$8,868,000, HK\$7,785,000 and HK\$2,563,000, respectively. Cristal Marketing only became a connected person of the Company upon becoming a substantial shareholder of Global Cosmetics (HK) on 18 September 2004, and the amount of sales through Cristal Marketing between 18 September 2004 to 31 December 2004 was HK\$5,546,000. No commission was paid by Cristal Marketing or Global Cosmetics (HK) to each other during the Track Record Period.



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Our top five distributors for the three years ended 31 December 2006 and the six months ended 30 June 2007 accounted for 97.6%, 93.4%, 49.9% and 52.2%, respectively, of our total turnover. Such percentages of sales made by these top five distributors do not include sales made by Cristal Marketing during the Track Record Period. Sales to our largest distributor accounted for approximately 23.2%, 22.9%, 13.9% and 13.4%, respectively, of our total turnover for the same periods. All the distributors engaged by our Group possess all necessary approvals or licenses to distribute our Group's products. Our Directors confirm that all the business transactions which we entered into with our distributors are on normal commercial terms.

None of our Directors or their respective associates, or our existing Shareholders, save for Cristal Marketing, who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any interest in any of our distributors.

On 20 December 2001, the Parent Company adopted a share option scheme, pursuant to which share options were granted by the Parent Company to our distributors with a view to rewarding our distributors for their contributions to our Group and fostering the relationship with our distributors. The maximum number of shares issued and to be issued upon exercise of the share options granted to each distributor in any 12-month period up to the date of grant under the share option scheme adopted on 20 December 2001 is limited to 1% of the shares of the Parent Company in issue, unless special approval being obtained from shareholders in general meeting of the Parent Company. As at the Latest Practicable Date, there were 13,250,000 share options granted by the Parent Company to the distributors which remained outstanding under the share option scheme adopted on 20 December 2001.

During the Track Record Period, none of the distributors have terminated their relationships with our Group for finance or other reasons.

The following table sets out the breakdown of our turnover of "Marjorie Bertagne" (MB) products by distributors in the PRC, Hong Kong and Macau during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
PRC	169,928	334,795	350,839	176,183	241,762
Hong Kong	12,491	7,880	6,893	1,742	2,119
Macau	1,075	988	892	463	444
Total turnover of "Marjorie Bertagne" (MB) products	<u>183,494</u>	<u>343,663</u>	<u>358,624</u>	<u>178,388</u>	<u>244,325</u>

**BUSINESS**

The map below shows the geographical distribution of our products through the points of sales in the PRC, Hong Kong and Macau as at the Latest Practicable Date:

**Marjorie Bertagne (MB)  
Points of Sales**



<b>BUSINESS</b>
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The table below shows the geographical distribution of our products through the dedicated counters in the PRC, Hong Kong and Macau as at the Latest Practicable Date:

Area	Cities	Number of dedicated counters
<b>Northeast China</b>	Dalian	8
	Changchun	6
	Shenyang	4
	Harbin	3
	Jilin	2
	Other cities	14
<b>Northern China</b>	Beijing	17
	Shijiazhuang	4
	Tianjin	3
	Taiyuan	2
	Datong	2
	Other cities	3
<b>Eastern China</b>	Shanghai	15
	Nanjing	3
	Wuxi	3
	Yangzhou	3
	Xiamen	3
	Shanming	3
	Suzhou	2
	Dongying	2
	Fuzhou	2
	Other cities	12
<b>Southern China</b>	Shenzhen	4
	Wuhan	4
	Guangzhou	3
	Dongguan	2
	Changsha	2
	Other cities	19
<b>Southwest China</b>	Chongqing	5
	Chengdu	4
	Kunming	3
	Guiyang	2
	Other cities	15
<b>Northwest China</b>	Urumqi	4
	Xi'an	4
	Karamay	2
	Yinchuan	2
	Other cities	6
<b>Hong Kong</b>		10
<b>Macau</b>		1
<b>Total in the PRC, Hong Kong and Macau</b>		208

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### CREDIT POLICY

In 2004, we generally demanded cash on delivery or granted credit periods of 90 days subject to management's approval, to our customers based on their creditworthiness and credit history. Our customers generally settled their purchase within 90 days from the date of issue of an invoice. Starting from 2005, the credit periods were tightened to 60 days. In 2006, we further tightened our credit policy and requested prepayment from customers before delivery of goods, and credit periods of 30 days will only be granted on a case-by-case basis.

We usually require our distributors to pay the purchase price in full prior to product delivery, but we grant certain long-term distributors a credit period of 30 days during peak sales season such as Chinese New Year, Chinese National Day and the Christmas holiday. For other distributors who do not qualify for credit terms, sales payments are normally settled upon product delivery by cash. Depending on the location of destination, we generally take one to seven days to deliver goods to our distributors upon receipt of their purchase orders.

We generally grant not more than 60 days of credit to Cristal Marketing, our sole distributor in Hong Kong.

The following table sets forth the trade receivable turnover days for the Track Record Period:

	Year ended 31 December			Six months ended
	2004	2005	2006	30 June 2007
Trade receivable turnover days <sup>(1)</sup>	164.3	94.2	46.3	24.2

*Note:*

- (1) The calculation of trade receivable turnover days is based on the average of the opening balance and the closing balance of trade receivable divided by turnover multiplied by 365 days for a year or 182.5 days for six months, as the case may be.

Trade receivable turnover days steadily decreased from 164.3 days for the year ended 31 December 2004 to 24.2 days for the six months ended 30 June 2007, primarily due to our continuous tightened credit policy.

### PRODUCT LIABILITY AND INSURANCE

We maintain product liability insurance with global coverage (excluding the U.S. and Canada) in respect of our products. The U.S. and Canada are excluded from our product liability insurance coverage because the products sold by our ODM and OEM customers in these countries are relatively insignificant and only account for 1% of our total sales in 2006 and nil for the six months ended 30 June 2007. However, we are in the process of arranging for worldwide product liability insurance coverage in view of increasing ODM and OEM orders. As at the Latest Practicable Date, we had not received any product liability claims from third parties in relation to the use of our products.

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We maintain accident and property insurance policies. We also contribute to social insurance for our employees as required by the PRC social security regulations, such as the pension contribution plan, medical insurance plan, unemployment insurance plan, maternity insurance plan and work-related injury insurance plan for our employees as required by the local government.

### ENVIRONMENTAL PROTECTION

We are subject to various PRC national and local environmental laws and regulations related to our operations, including regulations governing the use, storage, discharge and disposal of hazardous substances in the ordinary course of our manufacturing processes. These laws and regulations include limitations on waste discharge and emissions disposal. The PRC government promulgates schedules of fees for the discharge of various waste substances. These schedules usually provide for discharge fee increases for each incremental increase of the amount of waste discharge up to a specified level set by the PRC government or the local government. For any discharge exceeding the specified level, the relevant PRC government agencies may order any of our facilities to rectify behaviour causing any environmental damage, and subject to national approval, the local government has authority to order our facility to close for failure to comply with the existing regulations.

Our Directors confirm that we comply with the relevant requirements under the PRC laws and regulations for waste water treatment. Save for the water used for washing the activators after each batch of production, we do not produce other by-products during our production. The water used for washing the activators after completion of each batch of production is discharged through the sewage system of the Parent Group. During the Track Record Period, the Parent Group allowed us to use its sewage system free of charge. On 1 September 2007, a license agreement was entered into between Dongguan Proamine and Global Cosmetics (China) in relation to the licensing by Dongguan Proamine to Global Cosmetics (China) for the use of certain premises and sewage system owned by the Parent Group. For details of the licensing arrangement, please refer to the section headed “Connected Transactions” in this prospectus. For cost-effectiveness reasons, we continue to use the sewage system of the Parent Group. We will ensure compliance with applicable environmental laws and regulations in the future by (i) implementing our environmental protection and compliance, (ii) conducting on-site inspection regularly and providing relevant training to our staff and (iii) reporting to and coordinating with competent authorities immediately in the case any incident or non-compliance arises. Chwang Tak Ming Joseph has been designated by our Group to conduct regular on-site inspection to ensure our compliance with applicable environmental laws and regulations. He has over 20 years of experience in production management and is familiar with the relevant environmental requirements for the manufacturing industry. As our production process does not involve creation of polluting materials except for the water used for washing the activators and our Directors do not anticipate that our production would produce any material quantities of industrial waste in the future, other than the expenses that will be incurred for compliance with the current environmental laws and regulations, we have not allocated additional resources to new technology or conducting research and development to reduce our impact on the environment.

On 10 September 2007, an agreement was entered into between Global Cosmetics (China) and 東莞市寶盛環保投資有限公司 (Dongguan Bao Sheng Environmental Protection Investment Limited\*) (“Dongguan Bao Sheng”), which is an independent third party, in relation to the provision by Dongguan Bao Sheng to Global Cosmetics (China) of a monthly environmental testing on the sewage, air and noise discharged by Global Cosmetics (China), maintenance of environmental protection system and consultancy

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service on environmental policy. The agreement was entered into for a fixed term of two years. Either party shall have the right to terminate the agreement before its expiry if there is any breach of any term of the agreement by the other party. Pursuant to the terms of the agreement, Dongguan Bao Sheng shall provide monthly report to Global Cosmetics (China) on its service provided. Global Cosmetics (China) shall pay a monthly service fee of RMB20,000 to Dongguan Bao Sheng and shall be responsible for the maintenance cost of the environmental protection system. Dongguan Bao Sheng has been involved in some large-scale environment protection projects, including the waste disposal treatment, grease treatment, modification of toilets on trains and train sewage treatment for the corporations under the Ministry of Railways of the PRC, a 14,000 tonne-sewage treatment projects in Chang Ping Town, Dongguan, PRC and a 20,000 tonne-sewage treatment projects in Ma Yong Town, Dongguan, PRC. Dongguan Bao Sheng has not identified any non-compliance or weaknesses on the environmental protection measures adopted by our Group. To the extent we consider appropriate, we will remedy any detected non-compliance or weaknesses on the environmental protection measures adopted by us in the future. As Dongguan Bao Sheng was recently engaged by us, no amount was paid to Dongguan Bao Sheng during the Track Record Period.

For the three years ended 31 December 2006 and the six months ended 30 June 2007, the expenses incurred in relation to environmental protection were nil. The Directors confirm that we do not have any current formalised plans involving capital expenditure in relation to environmental protection in the near future.

We have obtained a confirmation letter from the Dongguan Environmental Protection Bureau which confirmed that we have complied with the relevant environmental rules and regulations and no environmental pollution incident has been discovered since the establishment of Global Cosmetics (China). We have not been subject to any material fines or legal action involving non-compliance with any relevant environmental or product safety regulations, nor are we aware of any threatened or pending action by any environmental regulatory authority in any of the jurisdictions where we operate. Our PRC legal advisers, Guangdong Harbour Law Firm, have confirmed that during the Track Record Period, (i) we fully complied with the relevant environmental rules and regulations and have obtained all the required permits and environmental approvals for our production facilities, (ii) no environmental pollution incident was discovered; and (iii) no penalty of any kind was imposed on any member of our Group. Moreover, there was no record of accident or fatalities during the Track Record Period and we are in compliance in all material respects with all applicable environmental, health and safety requirements. However, we cannot assure you that the costs or liabilities related to such requirements or additional requirements that may be imposed in the future will not result in a material adverse effect on our business, financial condition and results of operations.

Our Directors confirm that there was no specific demands and requirements imposed on our Group by our customers in complying with the relevant environmental protection rules in areas where our customers operate.

During the Track Record Period, we had not breached any laws and regulations, and no related penalties were imposed on us.

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### PERMITS, LICENCES AND REGULATORY COMPLIANCE

Under PRC law, sanitation licence approval of national cosmetics for special use issued by the State Sanitation Bureau shall be obtained for the production of any cosmetics for special use in the PRC. Cosmetics for special uses include hair nourishing products, hair dye products, hair perming products, hair removal products, breast treatment products, deodorant, whitening treatment products and sun proof cosmetics.

Our Group manufactures and sells our products within the PRC. For ODM and OEM customers, our Group would deliver the finished goods to them (or to their designated agents) in the PRC and the customers are responsible for complying with the export requirements for exporting the goods to overseas market. Our ODM and OEM customers are also responsible for ensuring that the products they purchased from us and sell in other jurisdictions comply with the relevant laws and regulations of these jurisdictions.

We have obtained all relevant permits, approvals, certificates and licenses including the licenses for all of our cosmetic products for special use manufactured in the PRC for our business operations.

### LABELLING REQUIREMENTS IN THE PRC AND HONG KONG

As advised by our PRC legal advisers, Guangdong Harbour Law Firm, according to Article 6 of the “Explanation of Chinese National Standard Consumer Goods for Labelling of Cosmetics Products GB 5296.3 — 1995” 《中華人民共和國國家標準消費品使用說明化妝品通用標籤 GB 5296.3—1995》，the label of skincare products and colour cosmetics is required to contain certain particulars (such as name of product, name and address of manufacturer, net weight of the products, serial number, expiry date, production license number and hygiene license number of the manufacturer, product standard number). For special cosmetics products, the special cosmetics product approval number is also required to be stated on the label. Based on all the packaging materials and/or containers (including any previous packaging design) provided to our PRC legal advisers by our Group, our PRC legal advisers are of the view that the labels of our Group’s products complies with all of the above requirements since their initial launch in the PRC in 2002.

In addition, our PRC legal advisers also advised that since “Marjorie Bertagne Paris” trademark (“French Mark”) was registered in France by Global Chemicals (China) and the use of the French Mark has been licensed by the Global Chemicals (China) to Global Cosmetics (China), the use of the French Mark on the packaging of our Group’s products is not in violation of the laws of the PRC. The registration procedure of the transfer of the “Marjorie Bertagne Paris” trademark from Global Chemicals (China) to Global Cosmetics (HK) was completed on 26 July 2007.

We have been advised by our legal advisers as to Hong Kong laws that under Hong Kong laws, there are no legal provisions requiring skincare products and colour cosmetics to be labelled with the country of manufacture or other labelling requirements (such as compulsory labelling of ingredients) for skincare products or colour cosmetics. Based on the packaging materials provided to our legal advisers as to Hong Kong laws by our Group, our legal advisers as to Hong Kong laws were of the view that the inclusion of the word “Paris” in the French Mark and the use of the French Mark on our Group’s products is not misleading because the packaging includes the legend “Manufactured by the Global Cosmetics Group in Asia under the authority of the licensor”. Our legal advisers as to Hong Kong laws were of the opinion

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that although the French Mark with the word “Paris” is not registered in Hong Kong, the French Mark is owned by a wholly-owned subsidiary of our Company, there is, therefore, no practical risk of any infringement claim by the owner of the French registered mark arising from our Group’s use of the French Mark on our Group’s products.

### INTELLECTUAL PROPERTY RIGHTS

Our intellectual property rights are of material importance to our business. As at the Latest Practicable Date, we had registered four trademarks and one domain name in the PRC, Hong Kong and France, and also made applications for certain trademarks in Hong Kong, the PRC and the European Union. As at the Latest Practicable Date, the application is still being processed. If we fail to complete the registration for any of those trademarks, we will not use those unregistered trademark(s) on any of our products. Since we will only start using a trademark after completion of its registration, there will not be any material impact to the operations and financial condition of our Group as a result of any failure of registration. Details of such intellectual property rights are set out in the paragraph headed “Further information about the business” in Appendix VI to this prospectus.

### PROPERTY INTERESTS

We currently have the land use rights for three parcels of land in Dongguan, the PRC, with a total site area of approximately 54,398.41 square metres and 21 properties or buildings, with a total gross floor area of approximately 59,576.51 square metres for use as production facilities, staff quarters and warehouses and for rent. We have obtained all the land use rights certificates and building ownership certificates for all these properties and buildings. Please refer to the “Property Valuation” in Appendix IV to this prospectus for further details regarding the land that we own. As advised by our PRC legal advisers, Guangdong Harbour Law Firm, there is no illegal use of any properties, nor is there any fine payable by us in respect of illegal use of properties.

### AWARD AND CERTIFICATE

We had received an award and certificate during the Track Record Period. The following is the award and certificate granted to us:

<b>Award and certificate</b>	<b>Time of grant</b>	<b>Awarding authority</b>
中國美容行業最具規模十佳知名品牌 (Top 10 Most Popular Brands in China Cosmetics Industry)	July 2004	中國名牌與品牌發展戰略委員會* (China Brand and Brand Development Strategy Committee)

\* *A private and non-government entity that is independent from our Group.*



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### EMPLOYEES

As at the Latest Practicable Date, we had a total of 654 full-time employees in Hong Kong and the PRC. The following table shows a breakdown of our employees by region and function as at the Latest Practicable Date:

	<u>Number of employees</u>
Administrative staff	60
Financial and accounting staff	10
Sales and marketing staff	86
Research and development staff	29
Production staff	340
Quality assurance and quality control staff	53
Purchasing staff	47
Logistics staff	29
<b>Total number of employees:</b>	<u><u>654</u></u>

### RESERVED FUND AND STAFF WELFARE AND BENEFIT FUND

According to Rules for the Implementation of the Law of the People's Republic of China on Foreign-Capital Enterprises 《中華人民共和國外資企業法實施細則》, in accordance with applicable PRC tax laws and regulations, Global Cosmetics (China) is required to make provisions for reserve fund “儲備基金” and staff welfare and benefit fund “職工獎勵及福利基金” from its annual profits. The amount of provisions to be made each year for reserve fund must not be less than 10% of the company's annual profit, and no such provisions need to be made when the total amount of the reserve fund reaches 50% of the company's registered capital. The amount of provisions to be made annually for staff welfare and benefit fund may be determined unilaterally at the discretion of the directors of the company.

Due to inadvertent omission, Global Cosmetics (China) did not make any provisions for reserve fund and staff welfare and benefit fund as required by law during the Track Record Period. Although Global Cosmetics (China) has made certain appropriations in relation to its retained profits, it has not made any actual payment of dividend from its profit reserves. We acknowledged and rectified the inadvertent omission in the second half of 2007. Global Cosmetics (China) will appropriate its profits into its reserve fund and staff welfare and benefit fund in accordance with the relevant PRC laws and regulations in the second half of 2007. Based on applicable PRC laws and regulation, our PRC legal advisers, Guangdong Harbour Law Firm, is of the view that there are no explicit legal consequence as a result of Global Cosmetics (China)'s omission to make provisions for the reserve fund and the social welfare and benefit fund, and our Directors are of the view that Global Cosmetics (China) will not be subject to any penalties in the future in respect of such non-compliance. Our Directors have further confirmed that Global Cosmetics (China) has not been penalised for its omissions and no disciplinary or administrative actions are pending against our Directors or senior management or received any claims from the employees or ex-employees.

## **BUSINESS**

Global Cosmetics (China) undertakes to make provisions to fully restore its reserve fund and social welfare and reserve fund to amounts as required by applicable PRC tax laws and regulations. Global Cosmetics (China) has passed a board resolution on 14 September 2007 to give such effect and made appropriations of RMB31,695,000 and RMB4,685,000 to reserve fund and staff welfare and benefit fund, respectively. The amount represents full provision based on applicable PRC laws and regulation. Our Directors are of the view that the inadvertent omission is not a reflection of any internal control weaknesses. However, to prevent future non-compliance, our Directors will ensure that the provisions for the reserve fund and the social welfare and benefit fund be reviewed by the audit committee of the Board on a semi-annual basis upon Listing.

The Parent Company has given an indemnity in favour of us against all damages, losses or expenses incurred by us in connection with our Group's inadvertent omission for the provision of reserves fund and staff welfare and benefit fund.

### **COMPETITION**

The skincare products and colour cosmetics business is characterised by keen and vigorous competition between domestic and multinational competitors. These skincare products and colour cosmetics manufacturers compete on various factors including brand name, product range, quality, price and coverage of distribution. Unique brand positioning, quality, performance and price have a significant influence on consumers' choices among competing products and brands. Advertising, promotion, merchandising, the ability to introduce new products and product extensions and the quality of sales staff also have significant impact on consumer purchasing decisions.

Although competition is keen, our Directors consider that we are well positioned to face such competition as a result of our competitive strengths. For details on our competitive strengths, please refer to the section headed "Business — Competitive Strengths" in this prospectus.

### **LEGAL PROCEEDINGS**

Our PRC legal advisers, Guangdong Harbour Law Firm, have confirmed that we have complied in all material respects with all relevant laws and regulations and have obtained all necessary licences, approvals and permits from relevant regulatory authorities for our operations in the PRC.

As at the Latest Practicable Date, based on currently available information and after consultation with our legal advisers, there were no legal proceedings pending or threatened against us which could have a material adverse effect on our business, financial condition or results of operations.

### **NO COMPETING INTEREST OF OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

Each of our Directors and substantial shareholders has confirmed that he/she/it does not have any interests in a business apart from our business which competes or is likely to compete with us.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

### BACKGROUND OF THE PARENT GROUP

The Parent Company is a company incorporated in the Cayman Islands under the Cayman Companies Law on 25 September 2000 with limited liability, the shares of which have been listed on the Main Board of the Stock Exchange since 18 December 2000. Immediately upon completion of the Global Offering, the Capitalisation Issue and full conversion of the REPS but without taking into account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the Parent Company will be interested in 55.69% of the then issued shares capital of our Company.

The Parent Group is principally engaged in the production and manufacture and sale of household products (e.g., detergent, laundry powder), industrial products, biotechnology products with pharmaceutical applications and investment and/or trading in marketable securities, bonds, foreign currencies, various funds and income generating fixed assets' portfolios.

During the Track Record Period, part of the manufacturing and sales of skincare products and colour cosmetics business of our Group (the "Cosmetics Business") were carried out by the Cosmetics Business Branches. The companies which held the Cosmetics Business Branches, namely, Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China), were wholly-owned subsidiaries of the Parent Group and were not subsidiaries of our Group. The Cosmetics Business was managed by the same senior management of our Group, namely, Ms. Judy Lau, Ms. Wong Wai Kwan Connie, Ms. Lui Wai Mui Grace, Ms. Tan Jie and Mr. Chu Wai Tak Edward. For details of the senior management, please refer to the section headed "Directors and Senior Management" in this prospectus.

Other than the Cosmetics Business, (i) Dongguan Proamine and Dongguan Gao Bao were also principally engaged in the manufacture and sale of household products including softeners, shampoo, hair conditioners, washing powder and biotechnology products with pharmaceutical applications; and (ii) Global Chemicals (China) was also principally engaged in the trading of household products including softeners, shampoo, hair conditioners and washing powder.

Since January 2007 all Cosmetics Business have been carried out by our Group. The Cosmetics Business Branches have ceased since January 2007. Details of the history of the Cosmetics Business Branches during the Track Record Period are as follows:

- (i) From January to July 2004, the cosmetics branch of Dongguan Proamine manufactured and sold our products to our distributors in the PRC. The cosmetics branch of Global Chemicals (China) sold our products to our distributor in Hong Kong, namely, Cristal Marketing.
- (ii) From August 2004, Dongguan Proamine ceased to manufacture and distribute our products. Instead, the cosmetics branch of Dongguan Gao Bao became responsible for the sourcing of raw materials, provision of machineries, manufacture and distribution of our products to our PRC distributors. The land and building which Dongguan Gao Bao used for production continued to be owned by Dongguan Proamine and the labour was supplied by Dongguan Proamine. Global Chemicals (China) continued to sell our products to our distributor in Hong Kong.

<b>RELATIONSHIP WITH CONTROLLING SHAREHOLDER</b>
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- (iii) Beginning in 2005, Global Cosmetics (China), a subsidiary of our Group, has taken up all manufacturing activities of the Cosmetic Business. All the production and sales staff who were previously employed by Cosmetic Business Branches entered into direct employment contracts with Global Cosmetics (China).

By using the production plant of Dongguan Gao Bao and the land and buildings of Dongguan Proamine, Global Cosmetics (China) manufactured our products. It then sold our products to the cosmetics branch of Dongguan Gao Bao which then sold to our PRC distributors.

In the same year, Global Cosmetics (HK), a subsidiary of our Group, has taken up all sales activities of the Cosmetics Business from Global Chemicals (China) branch. From then on all our sales to our distributor in Hong Kong, namely Crystal Marketing, were through Global Cosmetics (HK).

- (iv) In 2006, Global Cosmetics (China) directly sold our products to our PRC distributors. From then on, all our sales to our distributors in the PRC, were through Global Cosmetics (China).

In relation to the Cosmetics Business, Dongguan Gao Bao and Dongguan Proamine were only responsible to provide certain land and buildings, plant and equipment for manufacture of our skincare products and colour cosmetics.

Starting in 2006, management of Global Cosmetics (China) and Global Cosmetics (HK), both subsidiaries of our Group, actively built up their own production facilities for our skincare and colour cosmetics businesses.

- (v) The operations of the Cosmetics Business Branches ceased in January 2007. As at 1 January 2007, the breakdown and subsequent treatment of all the remaining assets and liabilities of the Cosmetics Business Branches are as follows:

	<i>HK\$'000</i>
Building	6,185
Furniture, fixtures and equipment	683
Motor vehicle	—
Plant and machinery	—
Fixed asset, at net book value	6,868
Trade receivable	2,166
Amount due to a fellow subsidiary	(4,176)
Total	4,858

## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

The building and furniture, fixtures and equipment in the remaining assets and liabilities of the Cosmetics Business Branches comprises the Proamine Plant which was used by our Group for production purposes during the Track Record Period. Since the production area used by our Group (i.e. the Proamine Plant) cannot be separately delineated from the rest of the production area in the same building and transferred to our Group, ownership of the building and furniture, fixtures and equipment was retained by Dongguan Proamine. As at the Latest Practicable Date, the Proamine Plant occupied approximately 1,920 square metres of production area and represented approximately 25% of the total production area in the building. From January to August 2007, the Proamine Plant was used by our Group at nil consideration. On 1 September 2007, Global Cosmetics (China) entered into a licence agreement with Dongguan Proamine in relation to, among other things, the use of the Proamine Plant. For details, please refer to the section headed “Connected Transactions” in this prospectus.

Those motor vehicle and plant and machinery were retained by our Group, which were used by the Parent Group at nil consideration for the period from January 2007 to September 2007.

Pursuant to a sales and purchase agreement entered into between our Group and Dongguan Gao Bao, in September 2007 (as amended and supplemented by a supplemental agreement dated 8 October 2007) all plant and machinery, and motor vehicle belonging to the Cosmetics Business Branches of Dongguan Gao Bao as at 1 January 2007 was transferred to our Group at net book value. No gain or loss was recorded for this transfer. After the execution of the sales and purchase agreement, our Group became the legal owner of all plant and machinery, and motor vehicle used in the Cosmetics Business. Our Directors consider the machinery and equipment and motor vehicle acquired by our Group from Dongguan Gao Bao as reasonable in view of the fact that these machinery and equipment and motor vehicle can be used in our Group’s manufacturing processes and are necessary in meeting our Group’s future production needs. As the cosmetics branch of Dongguan Gao Bao did not have any liabilities at the time of the acquisition, no acquisition of such liability could be made.

For reference purpose, the plant and machinery as mentioned above contributed a turnover and profit after tax of HK\$183,494,000 and HK\$44,333,000 respectively to our Group for the year ended 31 December 2004. After 2004, since there are additional fixed assets to our Group, it is not practicable to separately identify the turnover and profit after tax generated by these plant and machinery.

Although the trade receivables in the remaining assets and liabilities of the Cosmetics Business Branches were related to the Cosmetic Business Branches and thus belong to our Group from an accounting perspective, they were held by Dongguan Gao Bao since the invoices were issued by Dongguan Gao Bao to the debtors, and the debtors were obligated to settle the amount directly with Dongguan Gao Bao. As a result, the trade receivable amount cannot be transferred to our Group and therefore the Parent Group was entitled to collect these trade receivables as a return of their past contribution to the Cosmetics Business Branches. For the six months ended 30 June 2007, only HK\$214,000 was collected by the Parent Group from the debtors. The amount was retained by the Parent Group as a return of contributions by our Group to the controlling equity holder in respect of the Cosmetics Business Branches. The remaining balance of HK\$1,952,000 could not be recovered. Consequently, this amount was written off as bad debt expense of our Group as our Group was responsible to reimburse the Parent Group for such bad debts as a return of contributions to the controlling equity holder.

<b>RELATIONSHIP WITH CONTROLLING SHAREHOLDER</b>
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After the above treatment of all the remaining assets of the Cosmetics Business Branches, and taking into account the remaining amount due to a fellow subsidiary taken up by the Parent Group, all the contributions from the controlling equity holder in respect of the Cosmetics Business Branches were returned by our Group.

In order to confirm and ratify the above arrangement, on 25 October 2007, a confirmation was signed between Dongguan Gao Bao, Dongguan Proamine and Global Cosmetics (China) pursuant to which the parties acknowledged the above treatment of the assets and liabilities of Cosmetics Business Branches after its cessation and confirmed that the assets and liabilities of the Cosmetics Business Branches belonged to our Group during 2004 to 2006.

As at 31 December 2004, the Cosmetics Business Branches had fixed assets with an aggregate cost of HK\$84,107,000. As reflected in the confirmation above, the amounts were combined into the property, plant and equipment item of the balance sheet of our Group as part of the Cosmetic Business Branches assets from 2004 to 2006. Breakdown of the fixed assets is as follows:

<u>Type</u>	<u>Location</u>	<u>Current Usage as at the Latest Practicable Date</u>	<u>Current Ownership as at the Latest Practicable Date</u>	<u>Cost as at 31 December 2004</u> <i>(HK\$'000)</i>
Building, furniture, fixtures and equipment <i>(note 1)</i>	PRC	Leased to our Group for production purpose	Dongguan Proamine (the Parent Group)	8,930
Furniture, fixtures and equipment <i>(note 2)</i>	HK	As counters and salon set-up of our Group	Global Cosmetics (HK) (our Group)	6,720
Motor vehicle <i>(note 2)</i>	HK	For goods delivery and management travelling for our Group	Global Cosmetics (HK) (our Group)	3,733
Plant and Machinery <i>(note 3)</i>	PRC	For hEGF production and for research and development purposes for our Group	Global Cosmetics (China) (our Group)	29,454
Plant and Machinery <i>(note 3)</i>	PRC	Production of skincare and colour cosmetics products for our Group	Global Cosmetics (China) (our Group)	33,918
Motor Vehicle <i>(note 3)</i>	PRC	Management travelling for our Group	Global Cosmetics (China) (our Group)	1,352
			Total	<u>84,107</u>

*Note 1:* Building, furniture, fixtures and equipment comprises the Proamine Plant which were used by our Group for manufacturing purposes during the Track Record Period. As at the Latest Practicable Date, about 1,920 square metres were occupied by our Group, which represented about 25% of the total production area. As reflected in the

## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

confirmation above, in January 2007, the property was transferred to the Parent Group and our Group used portions of this property for its production for nil consideration. Starting from September 2007, our Group started to pay RMB9 per square metre per month to the Parent Group to use portions of this property. The amount was considered by an independent property valuer as fair rent. For assets returned back to the Parent Group, the amount of the assets are credited and the corresponding amount was debited to our special reserves as a “Distribution of Cosmetics Business Branches to fellow subsidiaries”

The property value was already combined into the property, plant and equipment item of the balance sheet of our Group for the three years ended 31 December 2006. The depreciation related to this property was charged into the income statements of our Group as part of the cost of sales.

*Note 2:* All the furniture, fixture and equipment and motor vehicle in Hong Kong which previously belonged to Global Chemical China were transferred from the Parent Group to our Group in 2005 and 2006 at net book value. No gain or loss on disposal was recorded.

Before such plant and machinery were transferred to the Parent Group, they were already combined into the property, plant and equipment item of the balance sheet of our Group as part of the Cosmetic Business Branches’ assets. All depreciations related to these plant and machinery were charged into the income statements of our Group as expenses.

*Note 3:* Such plant and machinery were used for production of skincare products and colour cosmetics, production of hEGF and research and development purposes from 2004 to 2006. The total production capacity was approximately 884.85 tonnes per year. Those motor vehicle and plant and machinery were retained by our Group and were used by the Parent Group at nil consideration for the period from January 2007 to September 2007.

The plant and machinery are not specifically designed for the manufacture of skincare products and colour cosmetics, and can be used for the manufacture of household products. The plant and machinery for production and research and development of hEGF can also be used for production and research and development of other biotechnology products. Therefore, the Parent Group can make use of these plant and machinery for its own business purposes after making certain mechanical adjustments.

Pursuant to a sales and purchase agreement entered into between our Group and Dongguan Gao Bao, in September 2007 (as amended and supplemented by a supplemental agreement dated 8 October 2007) all plant and machinery and motor vehicle belonging to the Cosmetics Business Branches of Dongguan Gao Bao as at 1 January 2007 was transferred to our Group at net book value. No gain or loss was recorded for this transfer. After the execution of the sales and purchase agreement, our Group became the legal owner of all plant and machinery, and motor vehicle used in the Cosmetics Business. For the acquisition of plant and machinery and motor vehicle from Dongguan Gao Bao, the amount was debited to corresponding category of fixed assets and credited to current account with Dongguan Gao Bao at net book value, the amount will be then settled by cash before Listing.

Before such plant and machinery were transferred to the Parent Group, they were already combined into the property, plant and equipment item of the balance sheet of our Group as part of the Cosmetic Business Branches’ assets from 2004 to 2006. All depreciation values related to them were charged into the income statements of our Group as cost of sales.

Apart from the leasing and licensing of property and sharing of sewage system and the recharging of expenses in relation to certain share options granted by the Parent Company, we do not have any other business relationship with the Parent Group. Details of such continuing connected transactions are set out under the section headed “Connected Transactions” in this prospectus.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

### INDEPENDENCE FROM PARENT GROUP

Our Directors are satisfied that we are capable of carrying on our business independently from Parent Group after the Global Offering. This conclusion is based on, among other factors, the following:

- (a) **Competition.** Our Directors believe that the concern regarding competition between Parent Group and our Group is alleviated by the fact that there is a clear delineation of business of the Parent Group and our Group.

The core business of the Parent Group and our Group, by their very nature, are different businesses which are independently operated in distinct markets and are aimed at different types of customers.

After the separate listing of our Group, we will focus on the business of manufacture and sale of cosmetics and skincare products, while the Parent Group will focus on the production and manufacture and sale of household products (e.g., detergent, laundry powder), industrial products, biotechnology products with pharmaceutical applications and investment and/or trading in marketable securities, bonds, foreign currencies, various funds and income generated fixed assets' portfolios (the "Remaining Business").

The Parent Group's customers of the industrial surfactants are mainly garment and textile manufacturers, trading companies and distributors of industrial surfactants to garment and textiles industry. The Parent Group's customers of household products are mainly distributors of household products and shopping malls. The Parent Group's customers of biotech products are mainly pharmaceutical companies.

On the other hand, our Group is principally engaged in the manufacture and sale of skincare products and colour cosmetics whose customers are distributors in the skincare products and colour cosmetics business.

As such, there is a clear delineation between the Remaining Business and the business of our Group. The Parent Group and its associates do not have any interests in any business (other than its interest in our Group) that competes with us.

In addition, the Parent Company has undertaken to us that, at any time during which our Shares are listed on the Stock Exchange and for so long as the Parent Company and its associates hold, whether individually or in the aggregate, 30% or more of our issued share capital or are otherwise regarded as our controlling shareholders, the Parent Company will not, and will procure that its associates (excluding our Group) will not, on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on or be engaged in, concerned with or interested in, directly or indirectly, whether as a shareholder (other than being a director or a shareholder of our Group or its associated companies), partner, agent or otherwise in the manufacture and sales of skincare products and colour cosmetics, or in any other business that may compete, directly or indirectly, with any business carried on from time to time by any member of our Group.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

- (b) ***Our assets and operational independence.*** Despite being part of the Parent Group prior to completion of the Reorganisation, we have been operating substantially independently from the Parent Group with, among others, our own accounting system and treasury function, production team, production facilities, sales and marketing teams and administrative resources. Although our Group is being licensed by the Parent Group for the use of certain premises for the operation of some of its production lines, such production lines only constitute a portion of our production. We have gradually shifted our production process from the production plant of the Parent Group to our own production facilities and we plan to move our entire production process out from the production plant of the Parent Group within 12 months from the Listing Date. For cost effectiveness reason, the water used for washing the activators after completion of each batch of production has been discharged through the sewage treatment of the Parent Group. We will install our own sewage system if there is such need in the future and the estimated cost of such installation is approximately RMB220,000. We are also licensed by the Parent Group for the use of canteen for provision of catering service to our staff. As our production complex is not fully occupied, the Directors do not expect to encounter any major difficulties to set up our own canteen, if required. Our production team is led by our senior management who has extensive experience in production implementation and management. All staff responsible for production are employed by our Group. In addition, we have our own source of supplies, customer base and sales and distribution channels. Such sources of supplies, customer base and sales and distribution channels are independent of the Parent Group. During the Track Record Period, there was no overlap of customers between our Group and the Parent Group. Although we rely on financing from the Parent Group during the Track Record Period, we will be financially independent of the Parent Group before Listing. Other than the transactions set out under the section headed “Connected Transactions” in this prospectus, there will be no other transactions to be made with the Parent Group.
- (c) ***Management independence.*** As at the Latest Practicable Date, the Board had seven members, comprising three executive Directors, one non-executive Director and three independent non-executive Directors while the board of directors of the Parent Company had six members, comprising three executive directors and three independent non-executive directors.

Mr. Lau as chairman and executive director of the Parent Company is also our non-executive Director. Ms. Wong Wai Kwan Connie, an executive Director, was a director of the Parent Company and a director of a subsidiary of the Parent Company. She retired as director of the Parent Company on 9 June 2006 and resigned as director of the Parent Company’s subsidiary on 5 October 2007 and will not have any role in the operation and management of the Parent Group.

During the three years ended 31 December 2006, Ms. Judy Lau, the chairman and executive Director of our Group, was a director of certain subsidiaries of the Parent Company but these subsidiaries of the Parent Company are currently inactive and she resigned from those directorships on 5 October 2007 to avoid any possible conflict of interest.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

As at the Latest Practicable Date, there was no overlapping of senior management members between our Group and the Parent Group. Apart from Mr. Lau, no other directors or senior management of our Group will involve in the daily operation and management of the Parent Group upon Listing. Mr. Lau, as our non-executive Director, will not engage in the daily operation and management of our Group and in case any conflict of interest arises, Mr. Lau will abstain from voting in the relevant resolution(s) in the meeting of the Board and excuse himself from the relevant Board meeting. As Mr. Lau's role in our Group will become non-executive and advisory in nature, therefore, even if Mr. Lau were conflicted out in the relevant resolution(s), the remaining Directors, including the three executive Directors who are responsible for the daily operations of our Group, could still properly attend to and consider the relevant proposal(s) and the operation of our Group will not be affected. It is expected that Mr. Lau will spend not less than 5% of his working time in the operation of our Group after Listing. The daily operations of our Group will be handled by the three executive Directors of our Company and a group of experienced senior management with extensive experience in skincare and colour cosmetics business and other employees of our Group.

Based on the above circumstances and reasons, our Directors are of the view that our Directors and senior management are able to function independently of the Parent Group.

- (d) ***Financial independence.*** Our Group has an independent financial system and finance team which is responsible for its own treasury function for cash receipts and payments despite its members are subsidiaries of the Parent Group during the Track Record Period.

As at 30 June 2007, our Group had aggregate amounts due to the Parent Company and fellow subsidiaries of about HK\$645.6 million. On 16 August 2007, we entered into an agreement with Cristal Marketing for the acquisition of the remaining 13% of the entire issued share capital of Global Cosmetics (HK) by way of share swap. For more details, please refer to the section headed "History and Reorganisation — The Reorganisation" in this prospectus. Upon completion of the acquisition, the amount due to the Parent Group will increase from HK\$645.6 million to approximately HK\$930 million. All such loans have been or will be settled before the Listing Date by way of (i) capitalisation in the sum of approximately HK\$480 million as disclosed in the paragraph headed "The Reorganisation" in the section headed "History and Reorganisation" in this prospectus; (ii) repayment of approximately HK\$160 million from the subscription amount paid by the Pre-IPO Investor for subscription of the REPS; and (iii) repayment of the remaining amount due to the Parent Group using a HK\$290 million bridge loan obtained by our Group from DBS Bank (Hong Kong) Limited (the "Bridge Loan"). We plan to use a portion of the proceeds from the Global Offering to repay the Bridge Loan in full. Further, bills payables balance of our Group totaling about HK\$1.4 million as at 30 June 2007 were guaranteed by the Parent Group, which agreement in principle for the release of such cross guarantees upon Listing have been obtained from the relevant banks.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

After completion of the Global Offering, our Group is financially independent of the Parent Group. There will be no financing from the Parent Group to our Group and our Directors are of the opinion that, taking into account of our Group's internal resources and the estimated net proceeds of the Global Offering, we will have sufficient working capital for our present requirements for at least the next 12 months from the date of publication of this prospectus. Our Directors believe that we will be able to obtain third party financing after Listing.

- (e) ***Administrative independence.*** Our Group is administratively independent from Parent Group as we have our own company secretary, qualified accountant, authorised representatives and administrative personnel.

### NON-COMPETITION UNDERTAKING

The Parent Company has entered into a deed of non-competition (the "Non-competition Deed") in favour of our Company, pursuant to which the Parent Company has undertaken to our Company that it would not, and that its associates (except any members of our Group) would not, during the restricted period set out below, (i) directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the business of any member of our Group (the "Restricted Business"); (ii) solicit any existing or then existing employee of our Group for employment by it or its associates (excluding our Group); and (iii) without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as the controlling shareholder for any purpose.

Such non-competition undertaking does not apply where:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available to us, and we, after review and approval by our Directors or shareholders as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, provided that the principal terms by which the Parent Company (or its relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favourable than those disclosed to us; or
- (b) having any interests in the shares of any member of our Group.

The "restricted period" stated in the Non-competition Deed refers to the period during which (i) our Shares remain listed on the Stock Exchange; and (ii) the Parent Company and/or its associates, individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at our general meetings.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

### CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest between our Group, the Parent Group and our Directors including:

- (i) Our Articles of Association provide that, unless otherwise provided by the Articles of Association, where any Director or his/her associates has a material interest in a matter, he or she may not vote on the resolutions of the Board approving the matter and shall not be counted in the quorum for the voting as required under the Listing Rules. In addition, it is provided in our Articles of Association that any such Director shall excuse himself from any meeting or part of any meeting of the Board and shall not participate in any discussions in respect of any resolutions where any contract or arrangement or other proposal in which he or any of his associates is materially interested is discussed or resolved, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by the remaining Directors. Should the Parent Company and our Company are both interested in a transaction which arise any conflict of interest of Mr. Lau and/or Ms. Judy Lau, Mr. Lau and Ms. Judy Lau will abstain from voting in the relevant resolution(s) and excuse themselves from the relevant Board meeting.
- (ii) We have a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgment. All the independent non-executive Directors have extensive experience in their different professional fields. Mr. Tam Pei Qiang has extensive experience in the accounting field, Mr. Lee Tin Chak Daniel has extensive experience in the medical field and Mr. Xie Ming Quan has extensive experience in the scientific field, which provide an appropriate mix of requisite industry knowledge and experience from their respective expertise, with the assistance of the executive Directors, who are engaged in the daily operation of our Group, have the necessary calibre and expertise to form and exercise independent judgment in the event that conflicts of interest between our Group and the Parent Group arise.
- (iii) In the event that potential conflicts of interest between our Group and the Parent Group may materialise, the Parent Company will abstain from voting in our shareholders' meeting with respect to the relevant resolution(s).
- (iv) We are administratively independent from the Parent Group as we have our own company secretary, qualified accountant, authorised representatives and administrative personnel.

## CONNECTED TRANSACTIONS

### CONNECTED TRANSACTIONS

Upon Listing of the Shares on the main board of the Stock Exchange, the transactions set forth below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for us.

#### Relationship between our Group and its connected persons

The Parent Company is and will remain a Controlling Shareholder immediately following completion of the Global Offering and the Capitalisation Issue and is therefore our connected persons.

Under the Listing Rules, for so long as the Parent Company remains as a connected person of our Company, the following transaction between our Group and the Parent Company, including members of the Parent Group would constitute a connected transaction upon the listing of the Shares on the main board of the Stock Exchange.

The following table summarises our continuing connected transactions:

Transactions	Waiver sought	Parties and relationship with the Group	Historical Amounts				Annual Caps		
			2004	2005	2006	Six months ended 30 June 2007	2007	2008	2009
Leasing and licensing of property	N/A	(1) Dongguan Gao Bao (2) Dongguan Proamine (3) Global Cosmetics (China) Both Dongguan Gao Bao and Dongguan Proamine are wholly-owned subsidiaries of the Parent Company, our Controlling Shareholder.	Nil	Nil	Nil	Nil	<HK\$1 million	<HK\$1 million	<HK\$1 million
Recharging of expenses arising from share options granted	Announcement requirement (LR14A.47)	(1) Parent Company (Controlling Shareholder) (2) Company	HK\$7,848,000	HK\$13,461,000	HK\$8,034,000	HK\$4,460,000	HK\$6,672,000	HK\$2,038,000	Nil

## CONNECTED TRANSACTIONS

### (A) Continuing connected transactions which are exempt from the reporting, announcement and independent shareholders' approval requirement

#### Leasing and licensing of property

On 1 September 2007, Global Cosmetics (China) entered into a lease agreement (the "Lease Agreement") with Dongguan Gao Bao, a member of the Parent Group, pursuant to which Global Cosmetics (China) agreed to lease to Dongguan Gao Bao the premises located at Factory X1 and X2, Tu Tang Village, Chang Ping Town, Dongguan City, Guangdong Province, the PRC of a gross floor area of approximately 5,748.09 square metres. (which Dongguan Gao Bao has occupied since 2007 at nil consideration) for a term commencing from 1 September 2007 to 31 December 2009 for an annual rental of RMB620,795, exclusive of all utility charges. The rental shall be paid by Dongguan Gao Bao to Global Cosmetics (China) in advance on a quarterly basis. The premises will be used by Dongguan Gao Bao for production purpose. As Dongguan Gao Bao and Global Cosmetics (China) are both within the Parent Group before the Proposed Spin-off, Global Cosmetics (China) allowed Dongguan Gao Bao to use the premises at nil consideration since completion of the construction in 2007. No rental has been charged by Global Cosmetics (China) during the Track Record Period.

On 1 September 2007 (as amended and supplemented by an agreement dated 8 October 2007), Global Cosmetics (China) entered into a licence agreement (the "Licence Agreement") with Dongguan Proamine, a member of the Parent Group, pursuant to which Dongguan Proamine agreed to grant a licence to Global Cosmetics (China) for the use of a portion of a storey of a building owned by Dongguan Proamine for production, a portion of the canteen of Dongguan Proamine for provision of catering service to the staff of Global Cosmetics (China) and the use of the sewage system of Dongguan Proamine by Global Cosmetics (China) for an aggregate annual licence fee of RMB317,094. The annual license fees for the use of the premises for production and for provision of catering service are approximately RMB207,360 and RMB109,734, respectively. Since the use of the sewage system by our Group only constitutes less than 5% of the total use of the sewage system, which amounted to approximately RMB1,100 per year, no license fee is being allocated to the use of the sewage system.

The licensing arrangement in relation to the use of the Proamine Plant and sewage system shall commence from 1 September 2007 to the date falling the expiry of the twelfth month from the Listing Date. The licensing arrangement in respect of the use of the canteen shall be for a term commencing from 1 September 2007 and expiring on 31 December 2009.

BMI Appraisals Limited, an independent valuer, has confirmed that the terms set out in the Lease Agreement and the Licence Agreement are normal commercial terms and that the rentals payable under the Lease Agreement by Dongguan Gao Bao and the licence fees payable under the Licence Agreement by Global Cosmetics (China) correspond to the fair market rentals.

Since each of the percentage ratios (other than the profits ratio) for the Lease Agreement and the Licence Agreement in aggregate is more than 0.1% and less than 2.5% and the aggregate annual consideration is less than HK\$1,000,000, the transactions contemplated under the Lease Agreement and the Licence Agreement constitute continuing connected transactions for our Company which are exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.33 of the Listing Rules.

## CONNECTED TRANSACTIONS

### (B) Continuing connected transaction which are subject to announcement requirements

#### **Recharging of expenses arising from share options granted by the Parent Company**

During the Track Record Period, share options were granted by the Parent Company to some of our Directors, eligible employees, customers and suppliers of our Group, who were only employed by our Group or rendered services solely to our Group, under the share option scheme of the Parent Company. The fair value of services received is determined by reference to the fair value of such share options granted and is expensed on a straight-line basis over the vesting period and charged appropriately. Share options issued to suppliers or customers in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding expenses of share options issued to suppliers or customers are recognised in the cost of sales and selling and distribution expenses, respectively.

Our Group recognised the total expense of HK\$7,848,000, HK\$13,461,000 and HK\$8,034,000 for each of the three years ended 31 December 2006, and HK\$4,460,000 for the six months ended 30 June 2007. For the options granted on 20 June 2006, the fair value was expensed (“Recharging”) on a straight-line basis over the vesting period, from the date of options granted to 19 June 2008. The corresponding amount to the total expenses of HK\$7,848,000 for the year ended 31 December 2004 has been recognised as a credit to reserve. The corresponding amount to the total expenses of for each of the two years ended 31 December 2006 and six months ended 30 June 2007 were charged by the ultimate holding company and credited to amount due to the Parent Company. For further details, please refer to Note 28 of the Accountants’ Report set out in Appendix I to this prospectus. The expenses so arising and which have become or will become a liability owing by us, accordingly, would amount to continuing connected transactions of our Company.

In respect of the options granted on 20 June 2006, as the fair value will continue to be expensed on a straight-line basis over the vesting period from such date of options granted to 19 June 2008, it is estimated that for the year ended 31 December 2007 and the year ended 31 December 2008. The expected expenses arising from the Recharging for each of the two years ending 31 December 2007 and 31 December 2008 are HK\$6,672,000 and HK\$2,038,000, respectively. The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Binomial Lattice Model, which is the acceptable valuation model with reference to HKFRS 2, and the valuation, which comprised of option granted to our Group’s and our Directors, eligible employees, customers and suppliers, have been carried out by independent professional valuers. The contractual life of the options is used as an input into this model. Expectation of early exercise is incorporated into the Binomial Lattice Model.

On 12 November 2007, an agreement for a term commencing from 12 November 2007 to 19 June 2008 was entered into between the Parent Company and us reflecting the recharging arrangement.

Based on the respective annual monetary caps for the Recharging, it is expected that each of the percentage ratios (other than the Assets Ratio and the Revenue Ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, will exceed the threshold under Rule 14A.33(3) of the Listing Rules, and therefore these transactions are subject to announcement requirements set out under Rule 14A.47 of the Listing Rules.



## CONNECTED TRANSACTIONS

The Recharging arose and will, up to 19 June 2008, continue to arise from pre-existing arrangement in the ordinary course of our Company and on normal commercial terms and in accordance with the applicable accounting standards. The Recharging arose from share options granted to secure goods and/or services from the designated holders of the options, which are in the best interests of our Company and our shareholders as a whole.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the Recharging from compliance with the announcement requirements under Rule 14A.47 of the Listing Rules.

Our Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions have been entered into on normal commercial terms, in the ordinary and usual course of business and are fair and reasonable to our Group. In this regard, our Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions and the proposed annual capped amounts are fair and reasonable and in the interest of our Group and our Shareholders as a whole.

The Joint Sponsors are of the opinion that the continuing connected transactions are in the ordinary and usual course of business of our Group, on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole and that the proposed annual capped amounts for the period ending 19 June 2008 are fair and reasonable.



## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Our Board of Directors consists of seven Directors, three of whom are independent non-executive Directors.

The following table sets forth certain information concerning our Directors:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Judy Lau	43	Chairman and Executive Director
Wong Wai Kwan Connie	58	Chief Executive Officer and Executive Director
Lui Wai Mui Grace	58	Executive Director
Lau Jim Jin-wei	38	Non-Executive Director
Tam Pei Qiang	33	Independent Non-Executive Director
Lee Tin Chak Daniel	55	Independent Non-Executive Director
Xie Ming Quan	61	Independent Non-Executive Director

### Executive Directors

**Judy Lau**, aged 43, is the Chairman and an executive Director of the Company. She started her business career in 1994. Ms. Lau has been with the Parent Group since 1994. Ms. Lau was the president of Global Chemicals (China) from 1994 to 2001 and has been the president and a director of Global Cosmetics (HK) and Global Cosmetics (China) since 2004 and 2005, respectively. She has successfully led the launching of the “Marjorie Bertagne” (MB) brand in both Hong Kong and China. Ms. Lau is responsible for the Company’s overall business development, strategic planning and execution of policies for both Hong Kong and China operation. Ms. Lau was not a director of any listed companies at any time during the previous three years. Ms. Lau is the sister of Mr. Lau, the non-executive Director of the Company.

**Wong Wai Kwan Connie**, aged 58, is the Chief Executive Officer and an executive Director of the Company. She joined our Group in April 2000. Ms. Wong has over 30 years of experience in the skincare and colour cosmetics industry and had worked for various international leading brands such as Revlon, MaxFactor and Avon. She was the general manager of MaxFactor Hong Kong and Revlon Taiwan, responsible for the central region of the PRC. Ms Wong joined the Parent Group as a director in 2000 and has been the president of the Parent Group’s cosmetics division. She resigned her directorship with the Parent Company (stock code: 274) in June 2006. Other than her previous directorship in the Parent Company, Ms. Wong was not a director of any listed companies at any time during the previous three years.

**Lui Wai Mui Grace**, aged 58, is the Chief Operation Officer and an executive Director of the Company. She joined our Group in September 2004. Ms Lui has over 30 years of experience in the skincare and colour cosmetics industry. Prior to joining our Group, Ms. Lui has held various senior management positions in renowned cosmetics companies such as Revlon and Borghese. She was the general manager of marketing and sales of Revlon in Hong Kong, and also was the general manager of Borghese in the Asia-Pacific region. Ms. Lui was appointed a director of Global Cosmetics (HK) and Global Cosmetics (China) in 2004 and 2005, respectively. Ms. Lui was not a director of any listed companies at any time during the previous three years.

## DIRECTORS AND SENIOR MANAGEMENT

### Non-Executive Director

**Lau Jim Jin-wei**, aged 38, is a non-executive Director of the Company. He joined our Group in April 2000. Mr. Lau is the chairman of the Parent Group. Throughout the years, Mr. Lau is responsible for the overall strategic planning and business development of our Group as well as the overall management of our Group's operations. He has successfully expanded the Parent Group's business from industrial surfactants to home and personal care products. He holds a bachelors degree in Arts and Science (major in Economic studies) from the University of York in Canada. Mr. Lau is currently a director of the Parent Company (stock code: 274). He joined the Parent Group in 1994 and has been the chairman and executive director of the Parent Group since its listing on the Stock Exchange in 2000. Other than his current directorship in the Parent Company, Mr. Lau is not a director of any listed companies at any time during the previous three years. Mr. Lau is the brother of Ms. Judy Lau, the executive Director of the Company.

### Independent Non-Executive Directors

**Tam Pei Qiang**, aged 33, is an independent non-executive Director of the Company. He joined our Group in November 2007. Mr. Tam holds a Bachelor's degree in Accountancy from the Hong Kong Polytechnic University and is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants of UK. He has over seven years of experience in auditing, accounting and financing. Mr. Tam is also the financial controller of Green Energy Group Limited, a company listed on the Stock Exchange. Mr. Tam was not a director of any listed companies at any time during the previous three years.

**Lee Tin Chak Daniel**, aged 55, is an independent non-executive Director of the Company. He joined our Group in November 2007. Dr. Lee holds MBBS from the University of Hong Kong. He is Fellow of the Royal College of Surgeons, Edinburgh (United Kingdom), the Hong Kong College of Surgeons and the Hong Kong Academy of Medicine with specialty in Plastic Surgery. Dr. Lee has served as president and vice president of the Hong Kong Society of Plastic, Reconstructive and Aesthetic Surgeons and is currently Honorary Secretary of the Society. Dr. Lee is also the consultant plastic surgeon of the Hong Kong Adventist Hospital and Kang Wu Hospital in Macau. Dr. Lee is a Member of the American Society of Plastic and Reconstructive Surgeons and Fellow of the American Academy of Cosmetic Surgery. Dr. Lee has not been a director of any listed company at any time during the previous three years.

**Xie Ming Quan**, aged 61, is an independent non-executive Director of the Company. He joined our Group in November 2007. Dr. Xie holds a Bachelor's degree in Agricultural Studies and a Master's degree from the South China Agricultural University. Dr. Xie was also a visiting scholar at the University of Georgia and the Osaka Prefecture University of Japan in which he completed his PhD degree in Science. Dr. Xie has been committed to scientific research and was presented with the "First Class Science and Technology Contribution Award" by the Guangdong Municipal Government in 1978 and was granted special remuneration by the Ministry of State since 1992 for his contribution to Science and Technology. Dr. Xie is currently a tutor to a doctorate class (博士導師) of South China Agricultural University and Sun Yat Sen University. Dr. Xie was not a director of any listed companies at any time during the previous three years.

None of the executive Directors, non-executive Director and independent non-executive Directors hold any other directorships in any listed companies other than those disclosed in this Prospectus.

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Ng Yuk Yeung**, aged 34, joined the Company as the Chief Financial Officer in May 2007 and is responsible for supervising our financial reporting, corporate finance, treasury, tax and other related finance matters. Mr. Ng has extensive experience in auditing and financial management, mostly gained from positions in one of the international firms of certified public accountants and a blue chip listed company. Mr. Ng holds a Bachelor's degree in Computer Science from the University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the CFA Institute. Mr. Ng is also the Company Secretary and Qualified Accountant of the Company.

**Chan Wah Man Carman**, aged 38, joined the Company as the Vice President of Investment Public Relation of our Group in May 2007, responsible for corporate finance and investor relations matters. Ms. Chan possesses over 13 years of experience in private equity, corporate finance and financial advisory. Before joining the Company, Ms. Chan worked in other companies as chief financial officer and financial adviser, helping companies in fund raising and preparation for initial public offerings. Prior to that, Ms. Chan worked as an Associate Director in Baring Capital Partners, ING Barings and Suez Asia Holdings (HK) Ltd, involved in private equity investments, corporate advisory and fund monitoring. Ms. Chan also worked for the corporate finance team in Seapower Financial Services Group. Ms. Chan graduated from Minnesota State University, Bemidji State, U.S.A. in 1993, majoring in Finance. Ms. Chan later earned her Master of Accounting Degree in Curtin University of Technology, Australia. Ms. Chan is a Certified Public Accountant of HKICPA and CPA (Aust.).

**Tsui Pui Kwan**, aged 34, is the General Manager of the ODM and OEM cosmetics division of our Group. Ms. Tsui joined our Group in October 2004 and was a co-founder of Global Idea. She is responsible for the overall strategic planning and business development of our Group's ODM and OEM, and private brand toiletries, skin and personal care businesses. Ms. Tsui has over 12 years of experience in the import and export business. Prior to joining our Group in October 2004, she worked for various companies in the cosmetics and gift products industry and was responsible for implementing sales and marketing strategies as well as product development.

**Leung Yuen Ling**, aged 39, is the Marketing and Product Development Department Manager of our Group. Ms. Leung joined our Group in January 2005 and she is responsible for marketing, product development, sales and promotion, public relations and advertising of our cosmetics business in Hong Kong and greater China. Ms. Leung has over 18 years of experience in sales and marketing in the cosmetics industry.

**Poon Wai Man Raymond**, aged 41, is the department manager of our Group's Quality Assurance Department. Mr. Poon joined our Group in October 2006 and is responsible for the quality control and quality assurance of our Group's production. Mr. Poon has over 15 years of experience in quality assurance and quality control. He holds a higher certificate in Mechanical Engineering from Hong Kong Polytechnic University.

## DIRECTORS AND SENIOR MANAGEMENT

**Chwang Tak Ming Joseph**, aged 56, is the production manager of our Group. Mr. Chwang joined our Group in January 2007. He has over 20 years of experience in production implementation and management. Mr. Chwang holds a Bachelor's degree in Business Administration from the University of Windsor, Canada.

**Tan Jie**, aged 45, is the purchasing manager of our Group. Ms. Tan joined our Group in June 2000 and is responsible for purchasing raw materials and inventory control. Ms. Tan has over 15 years of experience in research and development and production management of cosmetics products. Ms. Tan holds a certificate in Applied Chemistry from Anhui University, China.

**Chu Wai Tak**, aged 29, is the project manager of our Group's Research and Development Department as well as the Production Department of bio-cosmetic products. Mr. Chu joined our Group in June 2001 and he is responsible for the research and development as well as overseeing the production of bio-cosmetic products. He has over seven years of experience in the field of Biotechnology and he is experienced in large scale production of bio-cosmetic products being familiar with upstream and downstream processes. He received a bachelor degree from Hong Kong University of Science and Technology in 2001.

**Siu Chu Sin**, aged 47, is the project manager of our Group's Research and Development Department. Mr. Siu joined our Group in February 2004 and is responsible for the research and development of bio-cosmetic products. He has over 16 years of experience in the field of biotechnology, and has published research papers in international biotechnology journals. He has received a Ph.D. degree in Cellular and Molecular Biology from Maharishi International University, Iowa, U.S.A. in 1997, and has worked in the University of Mississippi, Oxford, U.S.A. as a postdoctoral research associate in 1998.

### Company Secretary and Qualified Accountant

**Ng Yuk Yeung**, aged 34, joined the Company as the Chief Financial Officer, Company Secretary and Qualified Accountant of the Company in May 2007 on a full-time basis. For details regarding Mr. Ng's experience, please refer to the section headed "Directors and Senior Management — Senior Management" in this prospectus.

## BOARD COMMITTEES

### Audit Committee

We established an audit committee on 15 November 2007 with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise our financial reporting process and internal control systems.

The audit committee comprises three members, namely, Tam Pei Qiang, Lee Tin Chak Daniel and Xie Ming Quan all of whom are independent non-executive Directors. The audit committee is chaired by Tam Pei Qiang.

## **DIRECTORS AND SENIOR MANAGEMENT**

### **Remuneration Committee**

We established a remuneration committee on 15 November 2007. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board regarding the compensation of the Chief Executive Officer and other executive Directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of our senior management.

The current members of the remuneration committee are Lee Tin Chak Daniel, Wong Wai Kwan Connie and Tam Pei Qiang. The remuneration committee is chaired by Lee Tin Chak Daniel.

### **Nomination Committee**

We established a nomination committee on 15 November 2007 to make recommendations to our Board regarding candidates to fill vacancies on our Board.

The current members of the nomination committee are Judy Lau, Tam Pei Qiang and Lee Tin Chak Daniel. The nomination committee is chaired by Lee Tin Chak Daniel.

## **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

We reimburse our Directors for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. The executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and other allowances and benefits in kind.

The aggregate amount of salaries and other allowances and benefits in kind paid by us to our five highest paid individuals during the three years ended 31 December 2006 and six months ended 30 June 2007 was approximately HK\$4.0 million, HK\$4.0 million, HK\$5.8 million, and HK\$3.1 million, respectively. The five highest paid individuals included two Directors during the three years ended 31 December 2006 and six months ended 30 June 2007. The increase in compensation made to the five highest paid individuals in 2006 was mainly due to the increase of emoluments and housing allowances paid to the Directors and the increase of basic salaries paid to the remaining three highest paid individuals in 2006, all of the increases were due to regular adjustment of salaries and benefits. Determination of the remuneration of our Directors and senior management will be based on their individual performance, the performance of our Group and market condition, therefore the increase of compensation in 2006 shall not be taken as indicative of a continuing trend of remuneration to our Directors or senior management. Approximately HK\$56,000, HK\$60,000, HK\$60,000 and HK\$30,000 were paid by us as our contribution to the pension schemes in respect of such individuals during the three years ended 31 December 2006 and six months ended 30 June 2007, respectively.

During the three years ended 31 December 2006 and six months ended 30 June 2007, the aggregate amount of salaries and other allowances, pension scheme contributions and benefits in kind paid by us to or on behalf of all of our Directors was HK\$2.1 million, HK\$2.3 million, HK\$3.8 million and HK\$1.9 million, respectively.

## **DIRECTORS AND SENIOR MANAGEMENT**

Except as disclosed above, no other payments have been made or are payable, in respect of the years ended 31 December 2004, 2005 and 2006, by us or any of our subsidiaries to or on behalf of any of our Directors.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of our Directors payable for the year ending 31 December 2007 to be approximately HK\$4,200,000.

### **COMPLIANCE ADVISER**

We will appoint ICEA as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated including shares issues and shares repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information of this prospectus; and
- where the Stock Exchange makes an inquiry of us under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, have beneficial interests or short positions in any of our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<b>Shareholder</b>	<b>Nature of Interest and Capacity</b>	<b>Number of Shares</b>	<b>Approximately Percentage of Shareholding</b>
Parent Company	Beneficial owner	723,907,697	55.69%
Cristal Marketing	Beneficial owner	96,879,803 ( <i>Note 1</i> )	7.45%
Supreme China Limited	Interest in controlled corporation	96,879,803	7.45%
Pre-IPO Investor	Beneficial owner	89,212,500	6.86%

*Note 1:* 96,879,803 Shares are registered in the name of and beneficially owned by Cristal Marketing, the entire issued share capital of which is owned by Supreme China Limited whose sole shareholder is Leung Hung Fai. As Cristal Marketing will hold less than 10% of the voting power of our Company upon completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, it will not fall under the category of substantial shareholder under the Listing Rule. However, as Cristal Marketing will be interested in more than 5% of the voting shares in our Company upon completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be issued pursuant to the exercise of any Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, it will fall under the category of a substantial shareholder under the SFO.

If the Over-allotment Option is fully exercised, the shareholding held by Cristal Marketing will be reduced to approximately 2.95%.

Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering, be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group, our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

## SHARE CAPITAL

### AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the share capital of the Company in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the Global Offering (without taking into account the exercise of the Over-allotment Option):

	<u>HK\$</u>
<b>Authorised share capital:</b>	
20,000,000,000 Shares of HK\$0.10 each	2,000,000,000
<b>Issued share capital:</b>	
90,850,001 Shares in issue as at the date of this prospectus	9,085,000.10
<b>Shares to be issued:</b>	
9,150,000 Shares to be issued upon conversion of REPS into Shares	915,000
874,999,999 Shares to be issued pursuant to the Capitalisation Issue	87,499,999.90
325,000,000 Shares to be issued pursuant to the Global Offering	32,500,000
<b>Total issued and to be issued share capital:</b>	
1,300,000,000 Shares	130,000,000

### ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and does not take into account the Shares which may be issued and allotted pursuant to any exercise of the options which may be granted under the Share Option Scheme or which may be allotted and issued or repurchased by the Company under the general mandates of any Shares referred to below.

### RANKING

The Shares are ordinary shares in the share capital of the Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalisation Issue.

The Company has conditionally approved and adopted the Share Option Scheme. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be allotted or issued pursuant to the exercise of the Over-allotment Option). A summary of the principal terms of the Share Option Scheme is set out in the section headed “Statutory and General Information — Other Information — 15. Share Option Schemes” in Appendix VI to this prospectus.



## SHARE CAPITAL

### GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Public Offer” in this prospectus, our Directors have been granted a general mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of: (i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue and the conversion of REPS into Shares; and (ii) the aggregate nominal value of the share capital of the Company repurchased by us (if any).

This general mandate to issue Shares will expire:

- at the end of our next annual general meeting;
- at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our shareholders in general meeting, whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed “Further information about our Company and our subsidiaries — Resolutions in writing of the Shareholders passed on 15 November 2007” in Appendix VI to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Public Offer” in this prospectus, our Directors have been granted a general mandate to exercise all our powers to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering and the Capitalisation Issue and the conversion of REPS into Shares.

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Repurchase by our Company of its own securities” in Appendix VI to this prospectus.

This general mandate to repurchase Shares will expire:

- at the end of our next annual general meeting;
- at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our shareholders in general meeting, whichever is the earliest.

## FINANCIAL INFORMATION

**The following discussion of our financial condition and results of operations should be read in conjunction with our audited combined financial information as of and for each of the three years ended 31 December 2006 and the six months ended 30 June 2007, including the notes thereto, and from our unaudited combined financial information as of and for the six months ended 30 June 2006 all included in Appendix I of this prospectus. The financial statements have been prepared in accordance with accounting standards generally accepted in Hong Kong, which differ in certain material respects from generally accepted accounting principles in other jurisdictions, including the United States.**

### OVERVIEW

We are one of the leading branded skincare products and colour cosmetics enterprises in the PRC where we market under the “Marjorie Bertagne” (MB) brand name. We are principally engaged in the research, development, manufacture and sale of skincare products and colour cosmetics. We sell our “Marjorie Bertagne” (MB) products to our distributors who are responsible for distributing our products in the PRC, Hong Kong and Macau through a sales network of approximately 1,252 points of sales. We have developed and promoted our “Marjorie Bertagne” (MB) brand name through a variety of marketing and promotional strategies, such as the promotion of celebrities as our spokespersons, sponsorship of television programmes and advertising campaigns including product launches, press conferences, television commercials, billboard posters, newspapers and magazines.

We are one of the few producers in the PRC who can produce hEGF and employ it in our own skincare products. hEGF has proven effective in encouraging human skin growth. Our Directors believe that there are three producers currently in the PRC market other than our Group which produce skincare products that contain hEGF. Based on a number of scientific studies such as a report published in *Biotechnology & Genetic Engineering Reviews* entitled “Applications, and Efficient Large-Scale Production, of Recombinant Human Epidermal Growth Factor” published in July 2001, it was noted that skincare products with hEGF ingredients have the effect of improving human skin cell growth and retarding the skin aging process.

The “Marjorie Bertagne” (MB) brand has two separate lines of skincare products which are targeted at retail and professional markets. The retail line includes our skincare products and targets customers who buy our products in retail outlets such as dedicated counters at department stores, cosmetics shops and specialty stores. This line of products is not used under the direction of professional skincare consultants. We launched our professional line of skincare products to the health and beauty salons in March 2005. The professional line also includes our skincare products but targets customers who seek customised skincare treatment services in health and beauty salons. This line of products is normally used under the direction of professional skincare consultants in health and beauty salons which provide customised skincare treatments, such as facial and body treatments. The professional line of products is specifically designed to be used in the health and beauty salons. As advised by our PRC legal advisers, Guangdong Harbour Law Firm, our Directors confirm that the professional skincare consultants are generally not required to obtain any licences and permits in order to provide customised skincare treatments to customers. As advised by our legal advisers as to Hong Kong laws, the professional skincare consultants who provide customised

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skincare treatments to customers at the health and beauty sales are generally not required to obtain any licenses and permits under the laws of Hong Kong. As the professional skincare consultants are employees of the distributors who run the health and beauty salons, any liability arising out of the skincare treatments undertaken by the professional skincare consultants will be borne by such distributors.

We do not sell our “Marjorie Bertagne” (MB) products directly to consumers but rely on our distributors to distribute our products in the PRC, Hong Kong and Macau through a sales network of approximately 1,252 points of sales. These points of sales are segmented into five channels: (i) brand image stores, (ii) dedicated counters in department stores, (iii) cosmetics shops, (iv) specialty stores, and (v) health and beauty salons. As at 30 September 2007, our “Marjorie Bertagne” (MB) products were sold at 208 dedicated counters, five brand image stores, 369 cosmetics shops, 69 specialty shops and 601 health and beauty salons. We sold our “Marjorie Bertagne” (MB) products through five distributors in 2004 and 2005, and 16 distributors in 2006. For our “Marjorie Bertagne” (MB) products, all our sales are made directly to our distributors and we do not have any wholesale operations. Our retail operations are run by our distributors under our supervision. We have an understanding on the inventory management of our distributors and points of sales (namely dedicated counters in department stores, brand image stores, cosmetics shops, specialty stores and health and beauty salons) through frequent communication with our distributors and visits some of the points of sales by our sales and marketing team.

We have invested in dedicated counters in the department stores and brand image stores which sell our “Marjorie Bertagne” (MB) products and provide health and beauty services using our “Marjorie Bertagne” (MB) products by paying for the design and set up costs. Such dedicated counters and brand image stores are not operated by our Group. Under the distribution agreements with our distributors, we retain a degree of control over the dedicated counters and brand image stores and we manage our distributors and the dedicated counters and brand image stores operated by these distributors through various measures, including:

- (a) *Retail pricing.* We adopt a unified retail pricing policy in the PRC, Hong Kong and Macau with discounts offered to our distributors based on the retail prices set by us. No profit sharing arrangements have been made between us and our distributors.
- (b) *Brand image at retail outlets.* We aim to create a unique image for retail outlets, namely dedicated counters and brand image stores through the use of unified decoration and designs distinctive to our products and brand portfolio.
- (c) *Dedicated counters and brand image stores location.* We seek to ensure that there is no over-concentration of dedicated counters and brand image stores within any designated area which may cause material competition among these counters and stores. Any expansion plan such as new store openings and the location of dedicated counters or brand image stores operated by our distributors must be approved by us prior to implementation. We are not aware of any saturation of our products sold in a particular area or region. We also retain control over the closing of existing dedicated counters or brand image stores, even though we do not own such counters and stores.

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Apart from dedicated counters and brand image stores, points of sales such as cosmetics shops, specialty shops and health and beauty salons are owned by distributors selling our “Marjorie Bertagne” (MB) products and also skincare products and colour cosmetics of other brands. We have no control over such points of sales.

Our business model is common in the skincare products and colour cosmetics industry in the PRC and has enabled us to achieve growth in sales by leveraging economies of scale from our distribution arrangements. Our sales are made on an outright and non-recourse basis. We pass the title of our products to our distributors when they are delivered to the points of sales.

We possess GMPC qualified production facilities which not only surpass the corresponding PRC standards but also meet with the standards of the European Union and the United States. We have accumulated significant experience in the production of skincare products and colour cosmetics for the medium to high-end market and mass markets since commencing our skincare products and colour cosmetics business in 2002.

As at the Latest Practicable Date, we had developed over 120 skincare products and 10 colour cosmetics under the brand name of “Marjorie Bertagne” (MB). The brand name of “Marjorie Bertagne” (MB) was permanently assigned to Global Chemicals (China), a member of the Parent Group, by our French OEM manufacturer, Cosme-Tech in May 2001, and subsequently transferred to us in 2007. For further details of our intellectual property rights, please refer to the sections headed “Business — Intellectual Property Rights” and “History and Reorganisation” in this prospectus. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, our sales of “Marjorie Bertagne” (MB) brand products accounted for approximately 100.0%, 97.6%, 87.6% and 95.1%, respectively, of our total turnover.

As at the Latest Practicable Date, all of our “Marjorie Bertagne” (MB) skincare products contained hEGF. Save for our “Marjorie Bertagne” (MB) skincare products, we do not use hEGF in any of our other products. We also develop and produce colour cosmetics and personal care products which do not contain hEGF through our in-house product design and development team. These products include toiletries and colour cosmetics under our own private brand names “Face” and “Envita” which are or will be distributed through international retail outlets. We commenced sales under the brand name of “Face” in September 2007 and we plan to commence sales under the brand name of “Envita” in the first half of 2008.

We also plan to sell toiletries, skincare products and colour cosmetics under the brand name of “MB2” which will be launched and sold in hypermarkets and cosmetics shops in the PRC in the second half of 2008. As at the Latest Practicable Date, none of the products developed and produced by us under our own private brand names contain hEGF. We plan to seek qualified professionals to offer advice and audit our products under the brand names of “Face” and “Envita” so as to ensure that we meet all applicable European laws and regulations in connection with the introduction of such skincare products and colour cosmetics. We will adopt the same approach when introducing our products to the United Kingdom and U.S. markets.

In addition to manufacturing products under our own brand, we are also engaged in the ODM and OEM businesses, under which we design and manufacture skincare products, colour cosmetics and toiletries for our ODM and OEM customers in Europe and the United States. In 2005, we had spare

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production capacity and gained the ODM and OEM qualification of our ODM and OEM customers. We commenced our ODM and OEM business in June 2005. The products designed and produced by us under our ODM and OEM business do not contain hEGF. As part of our ODM and OEM businesses, our customers are served by our own research and development and sourcing teams of technical experts and experienced merchandisers to enable our customers to enjoy our “One-Stop Service” in terms of research, development and production for high quality products at competitive prices. Our ODM and OEM customers are mainly international chain stores and pharmacists such as Next. For the two years ended 31 December 2006 and the six months ended 30 June 2007, our top five ODM and OEM customers accounted for approximately 99.6%, 98.3% and 99.3%, respectively, of our ODM and OEM turnover.

Our product design and development team is highly experienced in developing designs to meet customers’ needs and preferences. Our product design team members have average working experience of approximately 5.3 years engaging in the design of colour cosmetics and toiletries gift items for overseas retail networks such as Next.

### **FACTORS AFFECTING OUR PERFORMANCE**

Our results of operation and our financial condition have been and will continue to be affected by a number of factors, including those set out below.

#### **Levels of per capita disposable income and consumer spending**

We conduct substantially all of our operations in the PRC. Economic growth in China therefore has a direct impact on the level of demand for our products. China has experienced significant economic growth in recent years, achieving a compound annual growth rate in GDP of 11.5% from 1996 through 2006. The rapid growth of China’s economy has led to accelerated urbanisation resulting in rise in living standards and per capita disposable income. Per capita disposable income in urban areas grew from RMB4,839 in 1996 to RMB11,760 in 2006, representing a compound annual growth of 9.3%. As per capita disposable income has increased, consumer spending has also increased. Total retail sales of consumer goods grew continuously in the past decade from approximately RMB2.5 trillion in 1996 to RMB7.6 trillion in 2006. Furthermore, as per capita disposable income has increased, consumers in China have tended to shift a greater proportion of their spending towards the consumption of branded lifestyle products. Since we focus on these types of products, we expect our results of operation will continue to be affected by changes in the growth of China’s economy and in the growth of per capita disposable income, as well as consumer spending, particularly in urban areas.

#### **Business performance of our distributors**

During the Track Record Period, we sold our “Marjorie Bertagne” (MB) brand products to distributors, who in turn sold our “Marjorie Bertagne” (MB) brand products to consumers through five principal channels: brand image stores, dedicated counters in department stores, cosmetics shops, specialty stores and health and beauty salons. Our growth is affected by the business performance of our distributors. We believe that our ability to effectively supervise and manage our distributors will affect their performance, which will in turn affect our results of operation and financial performance.

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### **Product mix**

Our product mix during any particular period affects our results of operation for that period. We generally have earned higher gross profit margins on our “Marjorie Bertagne” (MB) brand products than our ODM and OEM products. We expect our “Marjorie Bertagne” (MB) brand products will continue to contribute a larger proportion of our gross profits relative to its contribution to revenues. We commenced sales under our private brand name of “Face” in September 2007 and we plan to commence sales under our private brand name of “Envita” in the first half of 2008. If our mix of “Marjorie Bertagne” (MB) brand and ODM and OEM revenue changes, then our consolidated gross profit will be affected both by the changes in revenues and by any changes in the gross profit margin of each of these products.

### **Expansion of our retail network**

Our products under the brand name of “Marjorie Bertagne” (MB) are mainly sold to the end users through a sales network of approximately 1,252 points of sales, which are segmented into five principal channels: brand image stores, dedicated counters in department stores, cosmetics shops, specialty stores and health and beauty salons. We believe that the location of a point of sales is critical to its success. In assisting our distributors to select a location of a new brand image store, health and beauty salon or dedicated counter, we evaluate a number of factors including spending patterns and purchasing power of the target local population, local population density and pedestrian traffic flow in the vicinity of a proposed location. For more details, please refer to the section headed “Business — Sales and Distribution Channels” in this prospectus.

### **Competition**

The skincare products and colour cosmetics industry is highly competitive in the PRC. Our financial condition and results of operations will be affected by our ability to remain competitive in this industry, which in turn depends on our ability to compete effectively by responding rapidly to market trends, increasing our brand awareness and differentiating our products from those offered by our competitors in ways that will appeal to consumers. In addition, we compete with international skincare products and colour cosmetics manufacturers, who have historically been subject to import duties. The PRC Government has announced its intention to reduce import duties over time. Pursuant to Annex 8: Schedule CLII — PRC (附件8: 第152 號減讓表 — 中華人民共和國) of the Accession of the PRC to the WTO (中國加入世貿組織議定書), the Chinese government has undertaken to reduce import duties with respect to lip and eye cosmetics products and powder products to 10% from 1 January 2005. Effective from the same date, import duties for nail cosmetics products is reduced to 15%, and import duties for other cosmetics products is reduced to 6.5% from 1 January 2008. Should import duties be reduced, international manufacturers will become more competitive in the PRC.

### **Ability to maintain brand recognition and marketing success of our products**

We believe brand recognition is crucial to customers’ purchasing decisions for skincare products and colour cosmetics. We place great emphasis on brand building and we promote our “Marjorie Bertagne” (MB) brand products through a series of advertising and promotional campaigns including media

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advertising and the engagement of celebrities as our spokespersons. For the three years ended 31 December 2006, our advertising and promotional expenses accounted for approximately 10.5%, 9.0% and 6.3%, respectively, of our turnover. Our ability to maintain and promote the recognition of the “Marjorie Bertagne” (MB) brand in the market through our marketing efforts will affect our sales growth.

### Seasonality

Our sales are subject to seasonality. A high proportion of our sales is typically recorded around the Chinese New Year, Chinese National Day and the Christmas holidays. Sales can also fluctuate during the course of the year for a number of other reasons, including the timing of launch of new products, and the timing of advertising and promotional campaigns. As a result of seasonal fluctuations, comparisons of sales and operating results between different periods within a single year, or between different periods in different years, are not necessarily meaningful and should not be relied on as indicators of our performance.

### Taxation

Our profit attributable to equity holders of the Company is affected by the preferential tax treatment that we enjoy. Typically, enterprises in China are subject to enterprise income tax at the rate of 33%. However, Global Cosmetics (China) is entitled to preferential tax treatment with a reduced FEIT rate of 24% in accordance with the relevant income tax laws and regulations of Dongguan, Guangdong Province.

Pursuant to a letter of approval issued by the local tax authority on 8 April 2005, Global Cosmetics (China) was exempted from FEIT for the first two profitable years of its operations after offsetting prior years' losses and is entitled to a 50% reduction on the FEIT for the following three years. Global Cosmetics (China) began its first two profitable years beginning in 2004, and was subject to FEIT at a rate of 12% for the three years beginning in 2006.

According to the PRC Enterprise Income Tax Law, which was promulgated on 16 March 2007, the income tax rate for both domestic and foreign-invested enterprise will be unified at 25% effective from 1 January 2008. However, there will be a transition period for enterprises that currently receive preferential tax treatments granted by the relevant tax authorities. Enterprises that are currently subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the new law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. Accordingly, our PRC legal advisers, Guangdong Harbour Law Firm, have confirmed that Global Cosmetics (China) will continue to be entitled to a reduced enterprise income tax rate in 2007 and 2008.

### CRITICAL ACCOUNTING POLICIES

We have identified below the accounting policies that we believe are the most critical to our combined financial information. These accounting policies require the most difficult, subjective or complex judgments of the management of our Group, often as a result of the need to make estimates about the effect of matters, which are inherently uncertain. Certain accounting estimates are particularly sensitive



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because of their significance to our Group's financial statements. The estimates and associated assumptions are based on our historical experience and various other factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgements about matters that are not readily apparent from other sources. Actual results may differ from these estimates.

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

### **Revenue Recognition**

Our revenue is primarily derived from the sales of skincare products and colour cosmetics. We recognise revenue derived from our distributors and our ODM and OEM customers based on confirmed customer orders with fixed terms and conditions, including price. We recognise income from the sale of goods when goods are delivered and title has passed, and collectibility is determined to be reasonably assured and is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

There are no differences in the recognition of sales to distributors and customers of ODM and OEM businesses. Our Group does not have consignment goods. We recognise sales once goods are delivered to our distributors and ODM and OEM customers, where title of goods is passed.

Royalty income is recognised on an accrued basis in accordance with the substance of the relevant agreements. Pursuant to an agreement dated 1 January 2004 entered into between Global Chemicals (China) and Cristal Marketing (the "Royalty Agreement"), Global Chemicals (China) agreed to sub-lease three flagship stores, which were leased by Global Chemicals (China) from independent third parties, located in Hong Kong to Cristal Marketing at nil consideration. In consideration of Global Chemicals (China)'s agreement to sub-lease the flagship stores at nil consideration, Cristal Marketing agreed to pay a royalty fee calculated at 28% of the net income generated from (i) the sale of "Marjorie Bertagne" (MB) products to its customers; (ii) services income generated from the services rendered to its customers; and (iii) any other income incidental to the sale of "Marjorie Bertagne" (MB) products or services rendered to its customers in the flagship stores, to Global Chemicals (China). In view of Global Chemicals (China)'s cessation of the leasing of the flagship stores, the parties ceased the arrangement in 2006.

Interest income from a financial asset is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### **Trade and other receivables**

We determine the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. We initially recognise receivables at fair value and subsequently measure receivables at amortised cost using the effective interest method, less any provisions for



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impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. We base our estimates on the aging of trade and other receivables balances, customer credit worthiness and our historical write-off experience. The amount of the provision for impairment is the difference between the asset's carrying amount and the present value of our estimated future cash flow, discounted at the effective interest rate. We recognise any provisions for impairment in the income statement. For the year ended 31 December 2005 and the six months ended 30 June 2007, we recognised provision for bad debts of HK\$6,000,000 and bad debts write-off of HK\$1,952,000, respectively. We did not make any provisions for the impairment of trade and other receivables for the years ended 31 December 2004 and 31 December 2006.

### **Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost is calculated using the weighted average method. The cost of finished goods comprises raw material, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of our business, less the estimated costs of completion and marketing, selling and distribution expenses.

We have operational procedures in place to monitor inventories because a significant portion of working capital is devoted to inventories and inventories are subject to technological changes. We review the usage of inventories on a monthly basis. This involves comparing the carrying value of the aged inventory items with their respective net realisable values. The purpose is to ascertain whether allowance is required to be made for obsolete and slow-moving items. In addition, a physical count of all inventories is carried out on semi-annually basis in order to determine whether allowance needs to be made in respect of any obsolete or defective inventories identified.

### **Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

The cost of buildings is depreciated over the shorter of the unexpired term of lease of the land use right and their estimated useful lives of 50 years after the date of completion.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects. They are not depreciated until completion of construction and the asset is ready for their intended use. Cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

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Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, after considering their estimated residual values, using straight line method, at the following rates per annum:

Plant and machinery	5% - 20%
Furniture, fixtures and equipment	5% - 40%
Motor vehicles	20%

The recorded values of properties, plant and equipment are affected by a number of management estimates, including estimated useful lives, residual values and impairment losses. Our Directors assess the need for any impairment only if any such indication exists. Such information may include a significant decrease in market value of the property, plant and equipment or a significant deterioration of market conditions such that the carrying value of property, plant and equipment may not be recovered.

### **Impairment losses**

At each balance sheet date, we review the carrying amounts of our assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognised as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is immediately recognised as income.

### **BASIS OF PRESENTATION**

The three subsidiaries of the Parent Company, namely Dongguan Proamine, Global Chemicals (China) and Dongguan Gao Bao, were engaged in both manufacture and trading of skincare products and colour cosmetics and household and industrial products. Businesses of those subsidiaries other than the Cosmetics Business had not been transferred to our Group and therefore excluded for the purpose of the preparation of the financial information.

The combined income statements and the combined cash flow statements which include the results and cash flows of the companies now comprising our Group and of the Cosmetics Business Branches have been prepared by applying the principles of merger accounting which is consistent with the principle stated in Accounting Guideline 5 “Merger accounting for Common Control Combination” issued by the HKICPA, as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation/establishment, where this is a shorter period. The combined balance sheets of our Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 have been prepared to present the assets and liabilities of the companies now comprising our Group and the Cosmetics Business Branches as if the current group structure had been in existence as at that date.

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The financial information in this section was prepared based on the audited financial statements and management accounts of companies now comprising our Group and financial statements of Cosmetics Business Branches which were prepared based on the items of assets, liabilities, income and expenses that are directly attributable to the Cosmetics Business Branches and can be specifically identified.

The following is the methodology employed in the identification and the inclusion of specific revenue, costs, expenses, assets and liabilities in relation to the Cosmetics Business:

- (i) Sales of skincare products and colour cosmetics were extracted from the sales ledgers by sale of product type. The amounts are reconcilable to the sales ledgers and also the sales accounts in the general ledger of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China).
- (ii) Cost of sales comprises principally three major items, namely raw material costs, direct wages and manufacturing overheads. These costs were attributed to the Cosmetics Business according to the records kept by the respective production lines of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China).
- (iii) Other income is segregated from other amounts according to their distinct nature as related to the Cosmetics Business, which includes principally reversal of provision for inventories, royalty income from distributors and advertising subsidy received from distributors.
- (iv) Selling and distribution expenses include principally salaries of salespersons, sales rebate, delivery charges, advertising expenses, promotion expenses and rental expenses for warehouse and sale offices. These expenses were identified by their connection to the Cosmetics Business.

Salaries of salespersons, advertising expenses, promotion expenses and rental expenses for warehouse and sale offices that were identifiable by reference to the records kept by sales departments of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China) related to the Cosmetics Business were included.

Certain expenses such as delivery charges were allocated primarily on the percentage of the revenue of the Cosmetics Business to total revenue of Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China).

- (v) Building used for our production process was allocated primarily on the percentage of the floor areas of production line occupied by the Cosmetics Business.

Plant and equipment used by the Cosmetics Business were all included.

- (vi) Raw materials specifically purchased for the manufacture of skincare products and colour cosmetics were all included.

The finished goods produced that were identifiable and exclusively related to the Cosmetics Business were all included.

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- (vii) Trade debtors, bills receivables, deposits, prepayments and other debtors that were identifiable from the debtors sub-ledger and general ledger and exclusively related to the Cosmetics Business were all included.
- (viii) Amounts due from or to group companies that were identifiable and exclusively related to the transactions of the Cosmetics Business among the Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China) were included in each branch account which were then eliminated in the combined financial information.
- (ix) All liability items which were identifiable from the creditors sub-ledger and general ledger and related to the Cosmetics Business specifically were included.

Expenses that are relevant to the Branch Cosmetics Business which are impracticable to identify specifically are determined on the following basis:

- (i) administrative expenses were allocated in accordance with headcount percentage;
- (ii) income tax expenses were calculated based on the tax rate of Cosmetics Business Branches as if each were a separate tax reporting entity.

Our Directors believe that the method of allocation of the above items presents a reasonable basis of estimating what the Cosmetics Business operating results would have been on a stand-alone basis during the Track Record Period.

The Cosmetics Business Branches ceased business in January 2007 and their relevant assets except for the plant and machinery and motor vehicles were retained by fellow subsidiaries of our Group on 1 January 2007. The plant and machinery and motor vehicle were acquired by our Group on 30 September 2007 as part of the Reorganisation. As a result, those assets were treated as our Group's assets throughout the Track Record Period and the sales consideration paid by our Group to the fellow subsidiaries for the acquisition of these assets were treated as distribution to the ultimate holding company. To acquire the plant and machinery and motor vehicle of the Cosmetics Business Branches and for Listing purpose, by an agreement dated 30 September 2007 (and supplemented by an agreement dated 8 October 2007), Global Cosmetics (China) acquired from Dongguan Gao Bao certain plant and machinery and motor vehicle at a total cash consideration of approximately RMB29,627,000, which represented all the plant and machinery and motor vehicles that generated all the revenue for the Cosmetics Business Branches during the Track Record Period. The transfer of such plant and machinery and motor vehicle took effect on 30 September 2007 and those plant and machinery and motor vehicle have been retained by our Group since the transfer.

The treasury and cash disbursement functions of the Cosmetics Business Branches are centrally administered by the respective fellow subsidiaries of our Group. All the transactions within the Cosmetics Business Branches are handled by our fellow subsidiaries centrally and therefore shown as movements in the special reserve as net contributions or return of contributions from the controlling equity holder in respect of the Cosmetics Business Branches. For each of the year ended 31 December 2006, the sum of the results of Cosmetics Business Branches and the net amount of payment made and receipt by the companies holding the Cosmetics Business Branches (the "Sum") increased the net assets of our Group, such amount is presented as "net contribution from the controlling equity holder in respect of the

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Cosmetics Business Branches”. In case the Sum decreased the net assets of our Group, such amount is presented as “net return of contribution from the controlling equity holder in respect of the Cosmetics Business Branches”. For more details, please refer to Note 21 of the Accountants’ Report in Appendix I to this prospectus.

### SELECTED COMBINED FINANCIAL DATA

The selected combined financial data set forth below are extracted from, and should be read in conjunction with, our combined financial information during the Track Record Period (“Financial Information”) set forth in the Accountants’ Report, the text of which is set forth in Appendix I to this prospectus. The Financial Information has been prepared in accordance with accounting principles generally accepted in Hong Kong.

The following tables show summary of the combined income statements data and the selected combined balance sheets data of our Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 30 June 2007 as if the current structure of our Group had been in existence throughout the periods under review. The summary should be read in conjunction with the Accountants’ Report set out in Appendix I to this prospectus.

	<b>For the year ended 31 December</b>			<b>For the six months ended</b>	
				<b>30 June</b>	
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>				
<b>Turnover</b>	183,494	351,965	409,479	189,073	256,898
Cost of goods sold	(61,193)	(154,382)	(151,350)	(69,593)	(56,239)
<b>Gross profit</b>	122,301	197,583	258,129	119,480	200,659
Other income	4,969	3,135	4,426	1,017	1,640
Selling and distribution expenses	(36,859)	(49,759)	(34,940)	(8,861)	(21,410)
Administrative expenses	(23,754)	(35,481)	(55,135)	(19,646)	(45,967)
Finance costs	—	(5)	(24)	(8)	(31)
<b>Profit before taxation</b>	66,657	115,473	172,456	91,982	134,891
Taxation	(22,324)	(14,008)	(30,540)	(13,561)	(21,102)
<b>Profit for the year/period</b>	<u>44,333</u>	<u>101,465</u>	<u>141,916</u>	<u>78,421</u>	<u>113,789</u>

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	For the year ended 31 December			For the six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i>
<b>Attributable to:</b>					
<b>Equity holders of the</b>					
<b>Company</b>	37,339	78,716	92,366	49,835	87,794
<b>Minority interests</b>	6,994	22,749	49,550	28,586	25,995
	44,333	101,465	141,916	78,421	113,789
 Dividends ( <i>Note 1</i> )					
Equity holders of the					
Company	—	—	135,000	—	—
Minority interests	—	—	75,000	—	—
	—	—	210,000	—	—
 Earnings per share					
— Basic ( <i>Note 2</i> )	4.22 HK cents	8.89 HK cents	10.43 HK cents	5.63 HK cents	9.91 HK cents

*Note 1:* No dividend has been paid or declared by the Company since its date of incorporation. However, in respect of the Track Record Period, the following dividends were paid by the subsidiaries to the shareholders of Global Chemicals (BVI) prior to the Reorganisation.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i>
Interim dividends paid to equity holders of the Company	—	—	135,000	—	—

*Note 2:* The calculation of the basic earnings per Share for the Track Record Period is based on the combined profit attributable to equity holders of the Company for each of the Track Record Period and on the weighted average number of 885,787,500, 885,787,500, 885,787,500, 885,787,500 and 885,787,500 Shares for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2006 and 2007, respectively.

There was no diluted earnings per share for the three years ended 31 December 2006 and for the six months ended 30 June 2006 and 30 June 2007 as there were no potential ordinary shares outstanding.

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### Key Income Statement Items

#### *Turnover*

Our turnover represents the net value of goods sold, after value-added taxes, allowance for goods returned, rebates and discounts, after elimination of intra-group sales. Our turnover principally comprises turnover from the sale of “Marjorie Bertagne” (MB) brand products, which are further divided into retail skincare and professional skincare products, colour cosmetic products, and ODM and OEM products.

The following table sets out a breakdown of our Group’s turnover by major product line during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
							<i>(unaudited)</i>			
Retail line	182,871	99.7	273,238	77.6	212,368	51.9	113,440	60.0	167,518	65.2
Professional line	—	—	36,163	10.3	127,151	31.0	55,809	29.5	66,179	25.8
Subtotal	182,871	99.7	309,401	87.9	339,519	82.9	169,249	89.5	233,697	91.0
Colour cosmetics (excluding personal care products)	623	0.3	34,262	9.7	19,105	4.7	9,139	4.8	10,628	4.1
ODM and OEM products	—	—	8,302	2.4	50,855	12.4	10,685	5.7	12,573	4.9
Total	<u>183,494</u>	<u>100.0</u>	<u>351,965</u>	<u>100.0</u>	<u>409,479</u>	<u>100.0</u>	<u>189,073</u>	<u>100.0</u>	<u>256,898</u>	<u>100.0</u>

Colour cosmetics is a fast changing business, and companies are required to continuously launch new products to meet customers’ preference and to remain competitive. In 2006, we temporarily focused on the professional market, and only launched six new colour cosmetics products that year. As a result, turnover of colour cosmetics decreased by HK\$15.2 million in 2006.

The ODM and OEM turnover increased significantly from 2005 to 2006, primarily due to the commencement of our ODM and OEM businesses in 2005, the growth of order from existing customers and order from new customers in 2006. Sales to one of our new customers amounted to HK\$21.7 million during 2006.

With our GMPC-compliant manufacturing base, we are capable of developing high-end skincare products and colour cosmetics which also enable us to penetrate into the sophisticated cosmetics market such as Europe and the United States. GMPC represents Good Manufacturing Practice of Cosmetic Products, being a standard laid down in the Guideline for Good Manufacturing Practice of Cosmetic Products published by the European Union and U.S. Food and Drug Administration which sets out the

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recommended practices for the manufacture of cosmetics and personal care products. All cosmetics and personal care products being sold to Europe and the United States must be compliant with GMPC. Compliance with the GMPC ensures that cosmetics products having consistent quality were produced and tested in line with a defined quality standards. In addition to all ODM and OEM products sold to Europe and the United States, all of the “Marjorie Bertagne” (MB) products were also produced with a GMPC-compliant manufacturing base to ensure high quality.

Turnover for ODM and OEM products were HK\$10.7 million and HK\$12.6 million for the period ended 30 June 2006 and 30 June 2007, respectively.

The following table sets out the breakdown of our turnover by geographical location during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2004		2005		2006		2006		2007	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	<i>(unaudited)</i>									
PRC	169,928	92.6	334,795	95.1	350,839	85.7	176,183	93.2	241,762	94.1
Hong Kong	12,491	6.8	7,880	2.2	6,893	1.7	1,742	0.9	2,119	0.8
Macau	1,075	0.6	988	0.3	892	0.2	463	0.2	444	0.2
United Kingdom, United States and others										
<i>(Note)</i>	<u>—</u>	<u>—</u>	<u>8,302</u>	<u>2.4</u>	<u>50,855</u>	<u>12.4</u>	<u>10,685</u>	<u>5.7</u>	<u>12,573</u>	<u>4.9</u>
Total turnover	<u>183,494</u>	<u>100.0</u>	<u>351,965</u>	<u>100.0</u>	<u>409,479</u>	<u>100.0</u>	<u>189,073</u>	<u>100.0</u>	<u>256,898</u>	<u>100.0</u>

*Note:* The amounts generated from the United Kingdom, the United States and others represent our Group’s revenue derived from ODM and OEM customers. Others include Australia, Spain, Italy, France and Austria.

### ***Cost of Goods Sold***

Cost of goods sold consists primarily of the cost of raw materials which included additives and other materials as well as packaging materials, share-based payment expenses related to share options granted to suppliers, direct labour costs, overhead costs, such as utilities, depreciation, and other manufacturing-related costs. The Parent Company granted share options to certain suppliers of raw materials, to subscribe for its shares in accordance with its share option scheme. The fair value of share options granted at the grant date was expensed on a straight-line basis over the vesting period. According to HKFRS 2, if the share-based payment is related to goods supplied, then the share-based payment is recognised to income statements when the goods are consumed or sold. As a result, it represents an expense in the cost of sales.



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The following table sets out a breakdown of our Group's cost of goods sold during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Additives and other materials	15,093	26,180	24,004	9,595	10,716
Packaging materials	26,204	96,290	60,477	20,477	32,673
Share-based payment expenses	<u>2,827</u>	<u>5,116</u>	<u>1,529</u>	<u>765</u>	<u>849</u>
Material cost subtotal	44,124	127,586	86,010	30,837	44,238
Direct labour	160	529	2,740	548	1,650
Factory overhead	9,793	15,774	24,461	9,257	10,351
Amortisation of technical know-how	5,192	5,192	2,596	2,596	—
Provision / Write-off of inventories	<u>1,924</u>	<u>5,301</u>	<u>35,543</u>	<u>26,355</u>	<u>—</u>
Total	<u>61,193</u>	<u>154,382</u>	<u>151,350</u>	<u>69,593</u>	<u>56,239</u>

### ***Other Income***

We derive our other income principally from interest income, royalty income, advertising and promotional income received from distributors, exchange gains, and sundry income.

### ***Selling and distribution Expenses***

Our selling and distribution expenses primarily consist of advertising and promotional expenses, sales staff salaries and share-based payment expenses related to share options granted to customers.

For the three years ended 31 December 2006 and the six months ended 30 June 2007, our total selling and distribution expenses accounted for approximately 20.1%, 14.1%, 8.5% and 8.3%, respectively, of our total turnover. Advertising and promotional expenses accounted for the majority of our selling and distribution expenses, representing approximately 52.1%, 63.6%, 74.0% and 72.2%, respectively, of our total selling and distribution expenses for the three years ended 31 December 2006 and the six months ended 30 June 2007, respectively.

### ***Administrative Expenses***

Our administrative expenses primarily consist of management and administrative personnel salaries, professional consultancy fees, office rental, research and development expenses, depreciation charges, provision for doubtful debts and share-based payment expenses related to share options granted to employees.

## FINANCIAL INFORMATION

### *Finance Costs*

Our Group had no bank borrowing for the three years ended 31 December 2006 and the six months ended 30 June 2007, but incurred certain interest expenses on trust receipt loans.

### *Taxation*

Our taxation represents corporate income tax for the companies in our Group. For more details, please refer to the section headed “Financial Information — Factors Affecting Our Performance” in this prospectus.

### **Share-based payment transactions**

During the Track Record Period, share options granted by the Parent Company, the ultimate holding company, under its share option schemes include options granted for the primary purpose of providing incentives to our Directors including Judy Lau, Wong Wai Kwan Connie and Lui Wai Mui Grace, eligible employees, customers and suppliers of our Group, who were only employed by our Group or rendered services solely to our Group.

The options were granted on 7 June 2004, 13 June 2005 and 20 June 2006 and the estimated fair values of the options are HK\$7,848,000, HK\$13,461,000 and HK\$16,744,000, respectively.

The options granted on 7 June 2004 and 13 June 2005 vested immediately from the grant date. For the options granted on 20 June 2006, 20% of them vested immediately from the grant date, an additional 30% vested one year from the grant date, and the remaining 50% will vest two years from the grant date. All options are settled by physical delivery of shares and are then exercisable within a period of three years from the grant date. If certain vesting conditions cannot be fulfilled, the amounts to be charged to income statements will be reduced.

In such connection, our Group recognised the total expenses of HK\$7,848,000, HK\$13,461,000 and HK\$8,034,000, respectively, for the three years ended 31 December 2006 and HK\$4,460,000 for the six months ended 30 June 2007. The remaining estimated fair values of the options granted on 20 June 2006 of HK\$2,212,000 will be charged to our Group’s income statement in the second half of 2007 for the six months from 1 July 2007 to 31 December 2007 and approximately HK\$2,038,000 will be charged in the year ending 31 December 2008 after Listing and the amount represents the maximum amounts arising from the share options granted on 20 June 2006. After Listing, the Parent Group will not continue to grant share options to our Directors, eligible employees, customers and suppliers of our Group, save for Mr. Lau, who is our non-executive Director and the executive director of the Parent Group, but the amount will not be charged to our Group. The corresponding amount to the total expenses of HK\$7,848,000 for the year ended 31 December 2004 has been recognised as a credit to reserve. The corresponding amount to the total expenses for the two years ended 31 December 2006, and the six months ended 30 June 2007 were charged by the ultimate holding company and credited to amount due to the ultimate holding company. Except for the expenses of HK\$7,848,000 for the year ended 31 December 2004 which has been recognised as a credit to reserve, all share option expenses charged to our Group have to be fully settled by our Group to the Parent Group.

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### Six Months Ended 30 June 2007 Compared to Six Months Ended 30 June 2006

#### *Turnover*

Our turnover increased by 35.9% to HK\$256.9 million in the six months ended 30 June 2007 from HK\$189.1 million in the six months ended 30 June 2006. Turnover of our ODM and OEM products, professional skincare products and colour cosmetics recorded a double-digit growth, ranging from 16.3% to 18.6%, while our retail skincare products grew by 47.7%. This increase was primarily due to the greater demand resulting from our increased spending in advertising and promotional activities as key marketing measures to increase consumer awareness and boost over brand image. Advertising and promotional expenses increased from HK\$5.5 million in the six month ended 30 June 2006 to HK\$15.5 million in the six months ended 30 June 2007, representing an increase of 181.8%. During the six months ended 30 June 2007, we invested in two brand image stores which allowed us to penetrate further areas without department stores. Such brand image stores provided retail sales of our “Marjorie Bertagne” (MB) products and health and beauty services.

#### *Cost of Goods Sold*

Our cost of goods sold decreased by 19.3% to HK\$56.2 million in the six months ended 30 June 2007 from HK\$69.6 million in the six months ended 30 June 2006. Our cost of goods sold would have increased by 30.1% if the effect of a HK\$26.4 million write-off of inventories in the six months ended 30 June 2006 were excluded, then this increase would be proportional to the increase in turnover. For details of our write-off of inventories, please refer to the section headed “Financial Information — Inventory Analysis” in this prospectus.

The share-based payment expenses related to share options granted to some suppliers, amounting to HK\$0.8 million, remained stable for both six-month periods ended 30 June 2006 and 30 June 2007.

#### *Gross Profit*

Our gross profit increased by 67.9% to HK\$200.7 million in the six months ended 30 June 2007 from HK\$119.5 million in the six months ended 30 June 2006 and our gross profit margin increased from 63.2% in the six months ended 30 June 2006 to 78.1% in the six months ended 30 June 2007 as a result of the factors described above. Our gross profit margin in the six months ended 30 June 2006 would be 77.2% if the effect of a HK\$26.4 million write-off of inventories were excluded.

#### *Other Income*

Our other income increased by 60.0% to HK\$1.6 million in the six months ended 30 June 2007 from HK\$1.0 million in the six months ended 30 June 2006.

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### *Selling and distribution Expenses*

Our selling and distribution expenses increased significantly by 140.4% to HK\$21.4 million in the six months ended 30 June 2007 from HK\$8.9 million in the six months ended 30 June 2006. This increase was primarily due to our substantial spending in advertising and promotional activities as key marketing channels to increase consumer awareness and boost our brand image. The advertising and promotional expenses increased from HK\$5.5 million in the six months ended 30 June 2006 to HK\$15.5 million in the six months ended 30 June 2007, representing an increase of 181.8%. In addition, in response to our increase in sales, we increased our staff headcount in sales and marketing, and staff salaries and allowances increased to HK\$1.9 million in the six months ended 30 June 2007 from HK\$1.0 million in the six months ended 30 June 2006.

### *Administrative Expenses*

Our administrative expenses increased significantly by 134.0% to HK\$46.0 million in the six months ended 30 June 2007 from HK\$19.6 million in the six months ended 30 June 2006. This increase was primarily due to a substantial increase in our legal and professional fees from HK\$1.6 million in the six months ended 30 June 2006 to HK\$16.4 million in the six months ended 30 June 2007, the increment of legal and professional fee mainly represented by fees for legal advice, accounting and auditing, internal control review and corporate finance advice in connection with the Global Offering. As the Global Offering exercise is an on-going process such expenses were accrued and charged to the profit and loss accounts before the completion of the Global Offering. Headcount of administrative and support personnel also increased. Largely driven by the increase in our scale of operations, staff salaries and allowance increased from HK\$5.0 million in the six months ended 30 June 2006 to HK\$7.2 million in the six months ended 30 June 2007.

### *Finance Costs*

We had no bank borrowings during both six-month periods ended 30 June 2006 and 30 June 2007, but incurred interest expenses on trust receipt loans.

### *Profit Before Taxation*

Our profit before taxation increased by 46.6% from HK\$92.0 million in the six months ended 30 June 2006 to HK\$134.9 million in the six months ended 30 June 2007 as a result of the factors described above.

### *Taxation*

Income taxes paid by us increased by 55.1% from HK\$13.6 million in the six months ended 30 June 2006 to HK\$21.1 million in the six months ended 30 June 2007, primarily due to an increase in income before taxation. Our effective tax rate increased slightly from 14.7% in the six months ended 30 June 2006 to 15.6% in the six months ended 30 June 2007.

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### *Minority Interests*

Minority interests, which related primarily to Global Cosmetics (HK) (13% of the shares of which were held by Cristal Marketing as of 30 June 2007), decreased by 9.1% to HK\$26.0 million in the six months ended 30 June 2007 from HK\$28.6 million in the six months ended 30 June 2006. This was primarily due to an acquisition of minority interests in Global Cosmetics (HK) during the six months ended 30 June 2007. During the six months ended 30 June 2006, 30% of the shares of Global Cosmetics (HK) were held by independent third parties, while Global Cosmetics (HK) in turn held 100% of Global Cosmetics (China).

On 5 March 2007, we further acquired 17% of the entire issued share capital of Global Cosmetics (HK) for a consideration of HK\$241.0 million. Such consideration was determined with reference to the net asset value and earnings of Global Cosmetics (HK) and its subsidiary, Global Cosmetics (China) and the market potential of its businesses. After the acquisition, we owned 87% of the entire issued share capital of Global Cosmetics (HK).

### **2006 Compared to 2005**

#### *Turnover*

Our turnover increased by 16.3% to HK\$409.5 million in 2006 from HK\$352.0 million in 2005.

ODM and OEM sales to Europe and the United States surged from HK\$8.3 million in 2005 to HK\$50.9 million in 2006. On the other hand, the sales of our “Marjorie Bertagne” (MB) brand products only increased by 4.4% due to our temporary focus on the professional market in 2006, and we only added six colour cosmetic products that year. Turnover of our colour cosmetics decreased by HK\$15.2 million while turnover of skincare products increased by HK\$30.1 million.

#### *Cost of Goods Sold*

Our cost of goods sold decreased slightly by 1.9% to HK\$151.4 million in 2006 from HK\$154.4 million in 2005. Our cost of goods sold would have decreased by 24.9% if the effect of a HK\$35.5 million write-off of inventories in 2006 were excluded. For more details of our write-off of inventories, please refer to the section headed “Financial Information — Inventory Analysis” in this prospectus. Within our cost of goods sold, the cost of packaging material decreased from HK\$96.3 million in 2005 to HK\$60.5 million in 2006. This decrease was primarily attributable to tighter cost control measures, such as the replacing of overseas suppliers with local suppliers of comparable quality, and the launch of our professional skincare products in China. The volume per bottle of this new line of products is three to 10 times that of the retail line of products, and only minimal external packaging is needed.

In addition, the share-based payment expenses related to share options granted to suppliers decreased from HK\$5.1 million in 2005 to HK\$1.5 million in 2006. Share options granted during 2005 has a vesting period of one year only as compared to two years for those granted during 2006. As a result, the fair value of share options granted during 2005 was all recorded as expensed in 2005.

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### *Gross Profit*

Due to the reasons discussed above, our gross profit increased by 30.6% to HK\$258.1 million in 2006 from HK\$197.6 million in 2005 and our gross profit margin increased from 56.1% in 2005 to 63.0% in 2006.

### *Other Income*

Our other income increased by 41.9% to HK\$4.4 million in 2006 from HK\$3.1 million in 2005, primarily due to an increase of exchange gain of HK\$1.5 million caused by the appreciation of the Renminbi.

### *Selling and distribution Expenses*

Our selling and distribution expenses decreased by 29.9% to HK\$34.9 million in 2006 from HK\$49.8 million in 2005. The decrease was primarily due to decreases in advertising and promotional expenses by HK\$5.8 million, freight charges and custom declaration fee by HK\$2.2 million, and sales staff salaries and allowances by HK\$2.1 million. In addition, the share-based payment expenses related to share options granted to distributors also decreased from HK\$5.5 million in 2005 to HK\$2.9 million in 2006.

### *Administrative Expenses*

Our administrative expenses increased by 55.2% to HK\$55.1 million in 2006 from HK\$35.5 million in 2005. This increase was primarily due to a substantial increase in headcount of administrative and support personnel, which was largely driven by our penetration into the ODM and OEM markets in Europe and the United States. Staff salaries and allowances increased by HK\$7.8 million, office rental expenses increased by HK\$2.8 million and share-based payment expenses related to options granted to employees increased by HK\$0.8 million. Research and development expenses also increased by HK\$5.0 million.

Other administrative expenses were also increased but the amount was almost offset by the effect that no provision for doubtful debts was made in 2006, as compared to a provision for doubtful debts of HK\$6.0 million in 2005.

### *Finance Costs*

Our Group had no bank borrowing during 2005 and 2006, but incurred interests on trust receipt loans.

### *Profit Before Taxation*

Due to the reasons discussed above, our profit before taxation increased by 49.4% from HK\$115.5 million in 2005 to HK\$172.5 million in 2006.

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### *Taxation*

Income taxes increased by 117.9% from HK\$14.0 million in 2005 to HK\$30.5 million in 2006, primarily due to an increase in income before taxation from HK\$115.5 million in 2005 to HK\$172.5 million in 2006 and an increase in effective tax rate. Our effective tax rate increased from 12.1% in 2005 to 17.7% in 2006. The increase in our effective tax rate was due to the expiration of the exemption period of FEIT of Global Cosmetics (China), one of our major subsidiaries. Global Cosmetics (China) was exempted from FEIT for the first two profitable years in 2004 and 2005 and is subject to a rate of 12% for the three years ending 2006, 2007 and 2008.

### *Minority Interests*

Minority interests, which related primarily to Global Cosmetics (HK) (30% of the shares of which were held by Cristal Marketing as of 31 December 2006), which in turn held 100% of Global Cosmetics (China), increased by 118.5% to HK\$49.6 million in 2006 from HK\$22.7 million in 2005.

### **2005 Compared to 2004**

### *Turnover*

Our turnover increased by 91.8% to HK\$352.0 million in 2005 from HK\$183.5 million in 2004. This increase was primarily due to the rapid economic development in China, which boosted the demand for high quality skincare products and colour cosmetics and our Group's substantial spending in advertising and promotional activities including appointment of spokesperson and launch of a series of television commercials. In 2005, our Group also launched several highly successful high-end "Marjorie Bertagne" (MB) products, including one new product in the line of GG hEGF Bioactive Aging Defense Program and three products in the line of Diamond Series. The new products were well-received in the market after we launched our promotional campaigns, including the appointment of Ms. Rosamund Kwan as our spokesperson and our sponsorship of a Korean drama series namely, Dae Jang Geum (大長今) on Hunan TV (湖南衛視) for approximately two months. The turnover of "Marjorie Bertagne" (MB) retail line products increased by HK\$90.4 million.

In addition, we have further enriched our colour cosmetics series and explored new markets through the introduction of professional skincare and ODM and OEM products. The turnover of professional skincare and ODM and OEM products amounted to HK\$36.2 million and HK\$8.3 million, respectively. The turnover of colour cosmetics increased from HK\$0.6 million in 2004 to HK\$34.3 million in 2005.

### *Cost of Goods Sold*

Our cost of goods sold increased by 152.3% to HK\$154.4 million in 2005 from HK\$61.2 million in 2004. The increase was primarily due to the increase in cost of packaging materials and additives and other materials of HK\$70.1 million and HK\$11.1 million, respectively. The introduction of high-end products, elegant design of "Marjorie Bertagne" (MB) brands and significant growth of the colour cosmetics

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business resulted in a higher cost of packaging materials. Prior to the first half of 2005, containers were imported from South Korea. Since the second half of 2005, we switched to local suppliers to better control the cost of packaging material. In addition, provision for inventories increased from HK\$1.9 million in 2004 to HK\$5.3 million in 2005.

In addition, the share-based payment expenses related to share options granted to suppliers increased from HK\$2.8 million in 2004 to HK\$5.1 million in 2005. More share option was granted during 2005 since the colour cosmetics business achieved significant growth during this year.

### *Gross Profit*

Due to the reasons discussed above, our gross profit increased by 61.6% to HK\$197.6 million in 2005 from HK\$122.3 million in 2004 and our gross profit margin decreased from 66.7% in 2004 to 56.1% in 2005.

### *Other Income*

Our other income decreased by 38.0% to HK\$3.1 million in 2005 from HK\$5.0 million in 2004, primarily due to decrease in royalty and advertising income from HK\$4.8 million in 2004 to HK\$1.7 million in 2005, which was partly offset by increase in interest income by HK\$0.5 million in 2005.

### *Selling and distribution Expenses*

Our selling and distribution expenses increased by 35.0% to HK\$49.8 million in 2005 from HK\$36.9 million in 2004. In 2005, a series of commercial advertisements on PRC television networks was launched to develop consumer and brand awareness of our products as well as to increase our market share. A spokesperson was also appointed to enhance further our brand image and as a result, the advertising and promotional expenses increased by HK\$12.4 million. The share-based payment expenses included in selling and distribution expenses increased from HK\$3.5 million to HK\$5.5 million in 2005.

### *Administrative Expenses*

Our administrative expenses increased by 49.2% to HK\$35.5 million in 2005 from HK\$23.8 million in 2004. Administrative expenses increased because of a provision for doubtful debt of HK\$6.0 million in 2005. Rental expenses increased from HK\$0.8 million in 2004 to HK\$2.4 million in 2005 and share option expenses related to share options granted to employee also increased to HK\$2.9 million in 2005 from HK\$1.6 million in 2004.

### *Finance Costs*

We had no bank borrowing during 2004 and 2005, but some trust receipt loan interest expenses were incurred.



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### *Profit Before Taxation*

Due to the reasons discussed above, our profit before taxation increased by 73.2% from HK\$66.7 million in 2004 to HK\$115.5 million in 2005.

### *Taxation*

Income taxes paid by our Group decreased by 37.2% from HK\$22.3 million in 2004 to HK\$14.0 million in 2005, and our effective tax rate decreased from 33.5% in 2004 to 12.1% in 2005. The decrease in our effective tax rate was primarily due to the shift of production from Dongguan Proamine to Global Cosmetics (China). Dongguan Proamine was entitled to a reduced tax rate of 15% from 2003 to 2005, but in contrast Global Cosmetics (China) was exempted from FEIT for the first two profitable years in 2004 and 2005 and was subject to a rate of 12% for the three years ending 2006, 2007 and 2008.

### *Minority Interests*

Minority interests, which related primarily to Global Cosmetics (HK) (30% of the shares of which were held by Cristal Marketing as of 31 December 2005), which in turn holds 100% of Global Cosmetics (China), increased by 224.3% to HK\$22.7 million in 2005 from HK\$7.0 million in 2004 primarily due to an increase in profit before taxation of Global Cosmetics (HK) and Global Cosmetics (China).

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### **Financial Resources, Borrowings and Banking Facilities**

During the Track Record Period, we did not have any loans and borrowings from external third parties. Cash balances in the banks were approximately HK\$13.7 million, HK\$11.7 million and HK\$118.3 million for the three years ended 31 December 2006, respectively.

We generally finance our operations with internally generated resources and amounts borrowed from the Parent Group. Historically, our Group's finances was closely linked to those of the Parent Group. The Parent Group acted as guarantor with respect to our Group's bank facilities. Both our Group and the Parent Group had borrowed amounts from each other during the Track Record Period and these borrowings were interest-free. In order to ensure the financial independence of our Group from the Parent Group, all loans and guarantees between our Group and the Parent Group will be fully settled before Listing. Following the Global Offering, our Group expects to fund its foreseeable expenditures from existing cash balances, the estimated net proceeds from the Global Offering and internally generated cashflow.

During the Track Record Period, we have no external sources of financing other than amounts borrowed from the Parent Group and bills payables guaranteed by the Parent Group. The amounts borrowed from the Parent Group are unsecured, interest free and has no fixed repayment terms.

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Our existing general banking facility is shared with the Parent Group. Such banking facility took effect on 29 December 2005 and there was no explicit expiry date provided under this banking facility. The following is a summary of the banking facility:

### Co-Borrowers

Global Chemicals (China)  
Global Cosmetics (HK)  
Global Idea

<u>Facilities (See Note)</u>	<u>Limit (See Note)</u>	<u>Interest Rate</u>
	<i>HK\$</i>	
letter of credit	20 million	
trust receipts	20 million	0.5% per annum below best lending rates
letter of indemnity	20 million	0.5% per annum below best lending rates
invoice financing loan	10 million	0.5% per annum below best lending rates
overdraft	3 million	best lending rate per annum
money market loan	7 million	2.5% per annum over HIBOR

*Note:* The limit set out in the second column above in respect of each type of facility is subject to a further restriction that the aggregate outstanding amount of all the above facilities shall not exceed HK\$20 million.

### **Securities**

Corporate guarantee for HK\$20 million executed by the Parent Company.

As at 30 June 2007, our Group and the Parent Group had drawn bills payables of approximately HK\$1.4 million and HK\$11.15 million, respectively under the general banking facility and there was no utilisation of other facilities. The total drawn and undrawn facilities amounted to HK\$12.55 million and HK\$7.45 million, respectively. There were no committed or non-committed facilities, except that our Group and the Parent Group together undertook to the bank to route bills business for not less than HK\$40 million annually. Such banking facility will be terminated before Listing.

We intend to retain 10% of the net proceeds from the Global Offering as working capital after Listing. About 72.6% of the net proceeds will be utilised in accordance with our future plan. The remaining 17.4% will be used to settle the Bridge Loan in full.

After the Listing Date, we no longer fund our operations through amounts borrowed from the Parent Group, and we will no longer make loans to member of the Parent Group.

## FINANCIAL INFORMATION

We earn revenue and incur costs and expenses mainly in Renminbi. This will continue to be the case following the Listing. We do not presently intend to use any derivative instruments in the foreign currency market to hedge against currency fluctuations. Our Directors believe that taking into account the working capital position of our Group, we are able to meet our foreign exchange liabilities as they become due.

### Net Current Assets or Liabilities

Our operations were generally financed by internally generated resources and amounts borrowed from the Parent Group. Our net working capital declined from a net current liabilities position of HK\$491.5 million as at 31 December 2006 to a net current liabilities position of HK\$675.7 million as at 30 June 2007. This decrease was primarily due to an increase in amounts borrowed from the Parent Group of HK\$241,090,000, which was used to fund our acquisition of a minority interest in Global Cosmetics (HK). The amount was partially offset by repayment of amounts borrowed from the Parent Group, which was funded by cash generated internally.

Our net working capital declined from a net current liabilities position of HK\$65.7 million as at 31 December 2005 to a net current liabilities position of HK\$491.5 million as at 31 December 2006. This decrease was primarily due to an increase in amounts borrowed from the Parent Group, which were used to fund our Group's investments in new production facilities by acquiring property, plant and equipment of HK\$232.6 million and paid the deposit for acquisition of property, plant and equipment of HK\$34.9 million, and a declaration of dividend payable to shareholders of HK\$210.0 million.

Our net working capital declined from a net current assets position of HK\$66.9 million as at 31 December 2004 to a net current liabilities position of HK\$65.7 million as at 31 December 2005. This decrease was primarily due to an increase in amounts borrowed from the Parent Group, which have been used to fund our investments in new production facilities. During the year, we acquired property, plant and equipment of HK\$96.0 million, paid the balance for the acquisition of land use rights of HK\$10.5 million and paid the deposit for acquisition of property, plant and equipment of HK\$10.5 million.

We have obtained the Bridge Loan from DBS Bank (Hong Kong) Limited of HK\$290.0 million for the repayment of loan due to the Parent Group. We plan to use a portion of the proceeds from the Global Offering to repay the Bridge Loan in full. The handling fee in relation to the Bridge Loan is HK\$300,000 and the interest rate is 2% per annum over HIBOR. The amount will be borrowed for approximately 24 days from 21 November 2007.

During the Track Record Period, we declared dividends of HK\$210.0 million for the year ended 31 December 2006. Dividend payable to a minority shareholder was already settled in 2006.

On 6 August 2007, the Parent Group assigned to our Company certain loans (which included the dividend of HK\$135.0 million payable by Global Cosmetics (BVI) to the Parent Group) in the aggregate net sum of HK\$480,026,048 due from our Group to the Parent Group in consideration of our Company allotting and issuing one Share to the Parent Company, credited as fully paid. No amount due to the Parent Group will subsist after the Listing.

<b>FINANCIAL INFORMATION</b>
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### Cash Flow

The following table presents selected cash flow data from our consolidated cash flow statements for each of the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (used in) generated from operating activities	(3,178)	86,516	203,757	126,283
Net cash used in investing activities	(116,506)	(106,856)	(262,961)	(60,682)
Net cash generated from (used in) financing activities	133,300	17,987	165,701	(147,794)
Net increase (decrease) in cash and cash equivalent	13,616	(2,353)	106,497	(82,193)
Cash and cash equivalent at the end of the year/period	13,732	11,689	118,289	36,881

Borrowings from the Parent Group are recorded in three separate lines in the cash flow statement as advances from or repayment to fellow subsidiaries of the Parent Group, immediate holding company and ultimate holding company.

The treasury and cash disbursement functions of the Cosmetic Business Branches are centrally administrated by the respective fellow subsidiaries. All the transactions within the Cosmetics Business Branches are handled by the fellow subsidiaries centrally and therefore shown as movements in the special reserve as net contributions or return of contributions from the controlling equity holder in respect of the Cosmetics Business Branches.

On 3 July 2007, the Pre-IPO Investor entered into the Subscription Agreement with the Parent Company and us, the net proceeds from the investment of approximately HK\$160 million was used to repay part of the loan due to the Parent Group. For more details, please refer to the section headed “History and Reorganisation — Pre-IPO Investment” in this prospectus.

On 6 August 2007, the Parent Group assigned to us certain loans in the aggregate net sum of approximately HK\$480 million due from our Group to the Parent Group in consideration of us allotting and issuing one Share to the Parent Company, credited as fully paid. This transaction is major non-cash transaction subsequent to 30 June 2007.

## FINANCIAL INFORMATION

### Cash Flows From Operating Activities

Net cash generated from operating activities for the six months ended 30 June 2007 was HK\$126.3 million while our profit before taxation for the same period was HK\$134.9 million. The difference of HK\$8.6 million was primarily due to non-cash expenses such as depreciation and amortisation (including release of land use right payments) of HK\$17.0 million, bad debts write-off of HK\$2.0 million, share-based payment charged by ultimate holding company of HK\$4.5 million, together with a decrease in trade and other receivables of HK\$27.8 million, partially offset by increase in inventories of HK\$16.7 million, decrease in trade and other payables of HK\$26.8 million and a payment of PRC enterprise income tax of HK\$16.2 million.

Net cash generated from operating activities for the year ended 31 December 2006 was HK\$203.8 million while our profit before taxation for the same period was HK\$172.5 million. The difference of HK\$31.3 million was primarily due to non-cash expenses such as depreciation and amortisation of HK\$25.4 million, write-off of inventory of HK\$35.5 million, share-based payment charged by ultimate holding company of HK\$8.0 million, an increase in amounts due to fellow subsidiaries of HK\$2.0 million together with an increase in trade and other payables of HK\$46.2 million, partially offset by an increase in trade and other receivables of HK\$28.2 million, an increase in inventories of HK\$36.6 million and a payment of PRC enterprise income tax of HK\$19.9 million.

Net cash generated from operating activities for the year ended 31 December 2005 was HK\$86.5 million while our profit before taxation for the same period was HK\$115.5 million. The difference of HK\$29.0 million was primarily due to non-cash expenses such as depreciation and amortisation of HK\$19.6 million, allowance for inventories of HK\$5.3 million, allowance for doubtful debt of HK\$6.0 million and share-based payment charged by ultimate holding company of HK\$13.5 million, together with a decrease in trade and other receivables of HK\$6.7 million, an increase in trade and other payables of HK\$11.2 million, partially offset by an increase in inventories of HK\$15.7 million and other non-cash operating items of Cosmetics Business Branches of HK\$74.9 million.

Net cash used in operating activities for the year ended 31 December 2004 was HK\$3.2 million while our profit before taxation for the same period was HK\$66.7 million. The difference of HK\$69.9 million was primarily due to non-cash expenses such as depreciation and amortisation of HK\$16.9 million, allowance for inventories of HK\$1.9 million and share-based payment charged by ultimate holding company of HK\$7.8 million, and an increase in trade and other payables of HK\$17.8 million, partially offset by an increase in trade and other receivables of HK\$33.3 million and other non-cash operating items of Cosmetics Business Branches of HK\$80.9 million.

## FINANCIAL INFORMATION

### **Cash Flows From Investing Activities**

Net cash used in investing activities for the six months ended 30 June 2007 was approximately HK\$60.7 million, primarily as a result of purchase of property, plant and equipment of approximately HK\$58.7 million, which included the purchase of machinery and equipment for the production of skincare products and colour cosmetics and research and development, and leasehold improvements for our new factory which was mainly related to electricity facilities, internal structure and warehouse.

Net cash used in investing activities for the year ended 31 December 2006 was approximately HK\$263.0 million, primarily as a result of purchase of property, plant and equipment of approximately HK\$223.5 million, which included the purchase of machinery and equipment for the production of skincare products and colour cosmetics and research and development, and construction of new production facilities on the land acquired in 2005, which consisted of production facilities for our skincare products and colour cosmetics, office, laboratory, staff quarter and warehouse, and a payment of deposit made on acquisition of property, plant and equipment of approximately HK\$34.9 million, mainly for the purpose of expansion in production capacity and replacement and the plant of machinery provided by the Parent Group.

Net cash used in investing activities for the year ended 31 December 2005 was approximately HK\$106.9 million, primarily as a result of purchase of property, plant and equipment of approximately HK\$86.4 million, which included the purchase of machinery for the production of skincare products and colour cosmetics and construction in progress on the land acquired in 2005, which consisted of production facilities for our skincare products and colour cosmetics and warehouse, a payment of deposit made on acquisition of property, plant and equipment of approximately HK\$10.5 million and a balance payment for acquisition of land use rights for the Dongguan factory of approximately HK\$10.5 million, mainly for the purpose of expansion in production capacity and replacement of plant and machinery provided by the Parent Group.

Net cash used in investing activities for the year ended 31 December 2004 was approximately HK\$116.5 million, primarily as a result of purchase of property, plant and equipment of approximately HK\$5.4 million, which included the purchase of machinery and motor vehicle, and a payment for deposit made on acquisition of land use rights for the Dongguan factory of approximately HK\$111.1 million. The new land use rights will be used to build a new factory, so that our Group's future operations can be independent from the Parent Group.

### **Cash Flow From Financing Activities**

Net cash used in financing activities for the six months ended 30 June 2007 was HK\$147.8 million, primarily as a result of repayment to fellow subsidiaries of HK\$155.4 million and repayment to immediate holding company of HK\$27.1 million, and partially offset by advance from ultimate holding company of HK\$34.7 million.

## FINANCIAL INFORMATION

Net cash generated from financing activities for the year ended 31 December 2006 was HK\$165.7 million, primarily as a result of advances from fellow subsidiaries of HK\$239.0 million, advances from ultimate holding company of HK\$17.8 million, and capital contributed by a minority shareholder of a subsidiary of HK\$12.0 million, partially offset by dividend payment of HK\$75.0 million and repayment to immediate holding company of HK\$28.0 million.

Net cash generated from financing activities for the year ended 31 December 2005 was HK\$18.0 million, primarily as a result of advances from fellow subsidiaries of HK\$13.9 million and advance from ultimate holding company of HK\$4.1 million.

Net cash generated from financing activities for the year ended 31 December 2004 was HK\$133.3 million, primarily as a result of advances from fellow subsidiaries of HK\$88.5 million, advances from immediate holding company of HK\$60.0 million, and partially offset by repayment to ultimate holding company of HK\$15.2 million.

### **Working Capital**

Taking into account of the cash flow from operations and the net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital for our working capital requirement and liquidity needs at least in the next 12 months commencing from the date of this prospectus.

### **INDEBTEDNESS**

#### **Borrowings**

At the close of business on 31 October 2007, being the latest practicable date for the purpose of this statement of indebtedness of our Group prior to the printing of this prospectus, our Group did not have any external borrowings from third parties. In addition, our Group had outstanding borrowings owed to the Parent Group in the amount of approximately HK\$328.0 million which were non-interest bearing and repayable on demand. All such amounts were unsecured.

All outstanding loans due by our Group to the Parent Company will be settled or released prior to the Listing Date.

#### **Debt securities**

As at 31 October 2007, our Group had outstanding convertible redeemable preference shares amounting to approximately HK\$164.2 million (equivalent to US\$21 million) and all of the outstanding redeemable preference shares will be converted into ordinary Shares of the Company before Listing Date.

#### **Contingent liabilities**

As at 31 October 2007, our Group did not have any material contingent liabilities or guarantees.

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### **Borrowings from the Parent Group**

We generally finance our operations with internally generated resources and amounts borrowed from the Parent Group. As at 31 December 2004, 2005, 2006 and 30 June 2007, we had borrowings from the Parent Group of approximately HK\$84.6 million, HK\$123.8 million, HK\$545.5 million and HK\$645.6 million, respectively, which were used to fund our investments in new production facilities, declaration of dividend payable to shareholders and acquisition of minority interest in a subsidiary.

In order to ensure the financial independence of our Group from the Parent Group, we obtained a Bridge Loan from DBS Bank (Hong Kong) Limited of HK\$290 million for the repayment of loan due to the Parent Group. We plan to use a portion of the proceeds from the Global Offering to repay the Bridge Loan in full. Please refer to the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus. Following the Global Offering, our Group expects to fund its foreseeable expenditures from existing cash balances, the estimated net proceeds from the Global Offering and internally generated cashflow.

After the Listing Date, we no longer fund our operations through amounts borrowed from the Parent Group, and we will no longer make loans to member of the Parent Group.

In August 2007, we entered into Subscription Agreement. Please refer to the section headed “History and Reorganisation — Pre-IPO Investment” in this prospectus for further details.

### **Disclaimer**

Save as otherwise disclosed in the section headed “Financial Information — Indebtedness” in this prospectus, and apart from intra-group liabilities, our Group did not have at the close of business on 31 October 2007 any loan capital issued and outstanding or agreed to be issued, all other borrowings or indebtedness in the nature of guaranteed, unguaranteed, secured and unsecured borrowings of our Group including bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 30 June 2007.



## FINANCIAL INFORMATION

### NET CURRENT LIABILITIES

At the close of business on 31 October 2007, our net current liabilities was HK\$279.6 million. The following table sets forth our current assets and current liabilities as at the balance sheet dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2004	2005	2006	2007	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>
<b>Current assets</b>					
Inventories	13,185	10,429	10,539	27,473	25,928
Trade and other receivables	130,832	56,617	51,535	20,836	12,224
Amounts due from fellow subsidiaries	—	70	5,687	7,686	7,957
Amount due from ultimate holding company	14,770	—	—	—	—
Bank balances and cash	<u>13,732</u>	<u>11,689</u>	<u>118,289</u>	<u>36,881</u>	<u>78,728</u>
	172,519	78,805	186,050	92,876	124,837
<b>Current liabilities</b>					
Trade and other payables	21,001	20,734	121,438	107,303	63,894
Amounts due to fellow subsidiaries	20,661	56,954	345,930	192,700	34,151
Amount due to immediate holding company	63,983	63,983	170,983	384,969	—
Amount due to ultimate holding company	—	2,829	28,632	67,895	301,807
Taxation payable	<u>—</u>	<u>—</u>	<u>10,591</u>	<u>15,748</u>	<u>4,614</u>
	<u>105,645</u>	<u>144,500</u>	<u>677,574</u>	<u>768,615</u>	<u>404,466</u>
<b>Net current assets (liabilities)</b>	<u><u>66,874</u></u>	<u><u>(65,695)</u></u>	<u><u>(491,524)</u></u>	<u><u>(675,739)</u></u>	<u><u>(279,629)</u></u>

Our net current assets decreased from HK\$66.9 million as at 31 December 2004 to net current liabilities of HK\$65.7 million as at 31 December 2005. This decrease was primarily due to an increase in amounts borrowed from the Parent Group, which has been used to fund our investments in new production facilities. During the year, we acquired property, plant and equipment of HK\$96.0 million, paid the balance for the acquisition of land use rights of HK\$10.5 million and paid the deposit for acquisition of property, plant and equipment of HK\$10.5 million.

Our net current liabilities increased from HK\$65.7 million as at 31 December 2005 to HK\$491.5 million as at 31 December 2006. This increase was primarily due to an increase in amounts borrowed from the Parent Group, which were used to fund our Group's investments in new production facilities by acquiring property, plant and equipment of HK\$232.6 million and paid the deposit for acquisition of property, plant and equipment of HK\$34.9 million, and a declaration of dividend payable to shareholders of HK\$210.0 million.

Our net current liabilities increased from HK\$491.5 million as at 31 December 2006 to HK\$675.7 million as at 30 June 2007. This increase was primarily due to an increase in amounts borrowed from the Parent Group of HK\$241,090,000, which was used to fund our acquisition of a minority interest in Global Cosmetics (HK). The amount was partially offset by repayment of amounts borrowed from the Parent Group, which was funded by cash generated internally.

## FINANCIAL INFORMATION

Our net current liabilities decreased from HK\$675.7 million as at 30 June 2007 to HK\$279.6 million as at 31 October 2007. This decrease was primarily due to the Parent Group's assignment to our Company certain loans in the aggregate net sum of HK\$480.0 million due from our Group to the Parent Group in consideration of our Company allotting and issuing 1 Share to the Parent Company, credited as fully paid.

### Combined Balance Sheet

	THE GROUP			THE COMPANY	
	As at 31 December			As at	As at
	2004	2005	2006	30 June 2007	30 June 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>					
Property, plant and equipment	66,484	139,921	415,527	505,304	—
Land use rights	—	119,205	121,443	122,718	—
Intangible assets	7,788	2,596	—	—	—
Investment in subsidiaries	—	—	—	—	116,218
Goodwill	—	—	—	222,963	—
Deposit made on acquisition of property, plant and equipment	—	10,485	34,911	123	—
Deposit made on acquisition of land use rights	<u>111,120</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>185,392</u>	<u>272,207</u>	<u>571,881</u>	<u>851,108</u>	<u>116,218</u>
<b>Current assets</b>					
Inventories	13,185	10,429	10,539	27,473	—
Trade and other receivables	130,832	56,617	51,535	20,836	—
Amounts due from fellow subsidiaries	—	70	5,687	7,686	—
Amount due from ultimate holding company	14,770	—	—	—	—
Bank balances and cash	<u>13,732</u>	<u>11,689</u>	<u>118,289</u>	<u>36,881</u>	<u>—</u>
	<u>172,519</u>	<u>78,805</u>	<u>186,050</u>	<u>92,876</u>	<u>—</u>
<b>Current liabilities</b>					
Trade and other payables	21,001	20,734	121,438	107,303	—
Amounts due to fellow subsidiaries	20,661	56,954	345,930	192,700	—
Amount due to immediate holding company	63,983	63,983	170,983	384,969	—
Amount due to ultimate holding company	—	2,829	28,632	67,895	—
Taxation payable	<u>—</u>	<u>—</u>	<u>10,591</u>	<u>15,748</u>	<u>—</u>
	<u>105,645</u>	<u>144,500</u>	<u>677,574</u>	<u>768,615</u>	<u>—</u>
Net current assets (liabilities)	<u>66,874</u>	<u>(65,695)</u>	<u>(491,524)</u>	<u>(675,739)</u>	<u>—</u>
Net assets	<u>252,266</u>	<u>206,512</u>	<u>80,357</u>	<u>175,369</u>	<u>116,218</u>

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	THE GROUP			THE COMPANY	
	As at 31 December			As at 30 June 2007	As at 30 June 2007
	2004	2005	2006	2007	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves					
Paid-in capital	65	65	65	9,085	9,085
Reserves ( <i>Note</i> )	<u>245,207</u>	<u>176,070</u>	<u>61,209</u>	<u>138,829</u>	<u>107,133</u>
Equity attributable to equity holders of the Company	245,272	176,135	61,274	147,914	116,218
Minority interests	<u>6,994</u>	<u>30,377</u>	<u>19,083</u>	<u>27,455</u>	<u>—</u>
Total equity	<u>252,266</u>	<u>206,512</u>	<u>80,357</u>	<u>175,369</u>	<u>116,218</u>

*Note:* The accumulated loss in the reserve as at 31 December 2006 was HK\$14,316,000, which was mainly due to the distribution of dividend by Global Cosmetics (China) amount to HK\$135,000,000 in 2006. Please refer to the Accountants' Report in Appendix I to this prospectus.

### KEY BALANCE SHEET ITEMS:

### PROPERTY, PLANT AND EQUIPMENT ANALYSIS

The increase of property, plant and equipment from approximately HK\$66.5 million as at 31 December 2004 to approximately HK\$139.9 million as at 31 December 2005 was primarily due to expansion of our production facilities.

Our Group's property, plant and equipment increased significantly from approximately HK\$139.9 million as at 31 December 2005 to approximately HK\$415.5 million as at 31 December 2006, primarily due to expansion of our production facilities.

### LAND USE RIGHTS AND DEPOSIT MADE ON ACQUISITION OF LAND USE RIGHTS ANALYSIS

In 2004, we entered into a sale and purchase agreement and made full payment to the seller regarding the acquisition of a piece of land in Dongguan with a lease term of 50 years.

In 2005, the land bureau of Dongguan issued a letter approving the acquisition of land by our Group. The deposit for acquisition of land use rights was transferred and classified as land use rights when our Group obtained the land use right certificate.

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### GOODWILL ANALYSIS

The goodwill of approximately HK\$223.0 million as at 30 June 2007 related to acquisition of 17% of the entire issued share capital of Global Cosmetics (HK) in 2007 with reference to the consideration paid amounting to approximately HK\$241,090,000 and the carrying amounts of the net assets acquired amounting to approximately HK\$18,127,000. Significant amount of goodwill arose due to the fact that the consideration of the acquisition of 17% interest in Global Cosmetics (HK) was determined principally with reference to the prevailing price-to-earning ratios of comparable companies listed on the Stock Exchange and the market potential of the business of Global Cosmetics (HK).

### INTANGIBLE ASSETS ANALYSIS

Intangible assets comprise licence acquired through the acquisition of the entire interests in High Billion to exploit technical know-how for the manufacture of certain biotechnology products with medical and cosmetics applications. The licence was granted to High Billion by Bio-Click pursuant to the Original Agreement as supplemented and amended by the Supplemental Deed. The acquisition cost of the licence amounted to HK\$20,767,000, was amortised over four years and was fully amortised as at 30 June 2006.

### INVENTORY ANALYSIS

During the Track Record Period, inventories were one of the principal components of our current assets. It is imperative that we manage and control our level of inventories. The value of our inventory accounted for approximately 7.6%, 13.2%, 5.7% and 29.6%, respectively, of our total current assets of the years ended 31 December 2004, 2005, 2006, and six months ended 30 June 2007.

The following table sets out a summary of our inventory balance for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	8,971	7,215	10,603	19,142
Finished goods	6,138	10,441	5,249	13,756
Provision for obsolete inventories	<u>(1,924)</u>	<u>(7,227)</u>	<u>(5,313)</u>	<u>(5,425)</u>
Total	<u>13,185</u>	<u>10,429</u>	<u>10,539</u>	<u>27,473</u>

Our inventory balance was relatively stable and inventory turnover period was low due to our inventory control policy. We review the usage of inventories on a periodical basis, including comparing the carrying value of the aged inventory items with their respective net realisable value. Our Directors believe that there are a large number of alternative suppliers in the market who are capable of supplying all the raw materials required by us and hence, in order to maintain our flexibility in sourcing raw

## FINANCIAL INFORMATION

materials, we do not enter into any long-term supply contracts with any of our suppliers. In order to maintain a sufficient supply of our products with minimal inventory level, our marketing department coordinates on a regular basis with the production department to plan the production schedule by reference to the annual sales forecast by our marketing department.

We do not have a general policy on provisions for obsolete inventory but would consider the need for a specific provision on a case-by-case basis. For the years ended 31 December 2004 and 2005, we have identified some inventories which were either damaged or without further use in our future production. For the year ended 31 December 2005, the reversal of allowance for inventories credited to the income statement as other income was HK\$53,000. The amount represented the overprovision for allowance for inventories of one of the members of our Group for the year ended 31 December 2004 because some raw materials which was fully provided in 2004 could be used in the production process during the year ended 31 December 2005. No other reversal of allowance for inventories was made during the Track Record Period. For the year ended 31 December 2006, the decrease in provision for obsolete inventories was primarily due to the fact that part of the provision brought forward from 2005 was directly offset to the gross amount of the inventories because the management considered that these obsolete inventories would have no further use in the production. The provision for obsolete inventories balance was changed from HK\$5,313,000 as at 31 December 2006 to HK\$5,425,000 as at 30 June 2007 due to exchange difference. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the specific provision or write-off for inventory obsolescence charged to the income statement were approximately HK\$1,924,000, HK\$5,301,000, HK\$35,543,000 and nil, respectively. For the year ended 31 December 2006, the write-off of inventory of HK\$35,543,000 was made up by a write-off of raw material of HK\$21,324,000 and a write-off of finished goods of HK\$14,219,000 mainly due to changes in formulation, image and packaging material. In 2006, the management decided to change the packaging material of two product lines namely, the GG hEGF Bioactive Aging Defense Program and Bio Aqua System, from glass to acrylic. The change was made because acrylic is light in weight, cheaper in cost and its use was the latest trend. In addition, we were able to locate several reliable acrylic suppliers in the PRC. During the same period, we also decided to change the formula and image of our Oil Balancing product line, which we no longer produce, and re-launch such product line under a new product line with new formulation namely, the Purifying Regime, to better fit the market needs. The Purifying Regime is different from the Oil Balancing product line in that it consists of hEGF and is less acidic than the Oil Balancing product line. The containers of the Oil Balancing product line were also made of glass. We did not manage to sell off the remaining products which were all contained in glass bottles because we decided to utilise bottles that were more trendy and fashionable. We started the use of acrylic as containers and stopped the sales of old products, so that we can minimise the time of two different containers co-existed for the same products in the market to avoid confusion, and also sped up the process of unifying the use of acrylic packaging materials.

We are not aware of any defects or hazards in the packaging material previously used or in the old formulation. Thus far, we have never been subject to any claims on product quality or product liabilities.

<b>FINANCIAL INFORMATION</b>
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**TRADE RECEIVABLES ANALYSIS**

The following table sets out the aging analysis of our trade receivables for the Track Record Period:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	35,461	35,696	44,717	17,541
Over 1 month to 2 months	32,173	18,471	1,078	86
Over 2 months to 3 months	38,085	—	539	51
Over 3 months to 1 year	21,810	—	1,170	904
Over 1 year to 2 years	—	—	2,166	—
<b>Total</b>	<u>127,529</u>	<u>54,167</u>	<u>49,670</u>	<u>18,582</u>

In 2004, we generally demanded cash on delivery or granted credit periods of 90 days subject to management's approval, to our customers based on their creditworthiness and credit history. Our customers generally settled their purchase within 90 days from the date of issue of an invoice. Starting from 2005, the credit periods were tightened to 60 days. Starting from 2006, we further tightened our credit policy and requested prepayment from customers before delivery of goods, and credit periods of 30 days would only be granted on a case-by-case basis. The decrease in average trade receivables turnover days over the years was predominantly due to the strengthening of our credit control. We do not have a general policy on provisions for allowance for doubtful debts and bad debt written off, but would consider the need for a specific provision on a case-by-case basis. For the year ended 31 December 2005 and the six months ended 30 June 2007, the specific provision or write-off of bad debts charged to profit and loss account were approximately HK\$6,000,000 and HK\$1,952,000, respectively. For the year ended 31 December 2005, our Group identified some debts amounting to HK\$6,085,000 which remained outstanding for a period longer than our normal trade terms. As a result, our Group made a provision of HK\$6,000,000 for the long-outstanding debt. For the six months ended 30 June 2007, our Group identified some debts amounting to HK\$1,952,000, which were brought forward from the year ended 31 December 2006, and unable to collect from the debtors. As a result, our Group wrote off the amounts as bad debt expense.

During 2005, we had trade receivables of approximately HK\$6,000,000 due for more than 120 days, which was longer than the normal trade terms. Our Directors took a more conservative approach by making a provision for bad debt in relation to these trade receivables. In 2006, there were trade receivables of approximately HK\$5,000,000 which were longer than normal trade terms. Since this amount was close to our Group's provision made previously, our Directors decided to maintain the provision of HK\$6,000,000. For the first half of 2007, we had no trade receivables due longer than normal trade terms. However, we decided to maintain the previous level of provisions of bad debt and assess the provision at the end of 2007 in order to avoid unnecessary fluctuation of provision during the year.

<b>FINANCIAL INFORMATION</b>
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The bad debt written off of HK\$1,952,000 for the first half of 2007 was not specifically related to a single distributor. This amount represented revenue of goods which were sold to our distributors prior to 2007. Since the amount is immaterial, subsequent to further discussion with our distributors, our Directors decided to write-off the corresponding trade receivables amounts in relation to these goods as promotional items provided to our distributors in order to maintain the business relationship with these distributors. Other than these, we did not make any provision or write-off for doubtful debts during the Track Record Period.

The following table sets out our trade receivable turnover days for the Track Record Period:

	For the year ended 31 December			For the six months ended
				30 June
	2004	2005	2006	2007
Trade receivable turnover days <sup>(1)</sup>	164.3	94.2	46.3	24.2

*Note:*

- (1) The calculation of trade receivable turnover days is based on the average of the opening balance and the closing balance of trade receivable divided by turnover multiplied by 365 days for a year or 182.5 days for six months, as the case may be.

Trade receivable turnover days steadily decreased from 164.3 days for the year ended 31 December 2004 to 24.2 days for the six months ended 30 June 2007, primarily due to our continuous tightened credit policy.

#### **OTHER RECEIVABLES ANALYSIS**

Other receivables mainly comprise of advance to staff for business trip, promotional expenses paid on behalf of and recoverable from distributors, rental and other utility deposits.

<b>FINANCIAL INFORMATION</b>
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### TRADE AND BILLS PAYABLES ANALYSIS

The following table sets out the aging analysis of our trade and bills payables for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	3,351	577	495	14,259
Over 1 month to 2 months	4,311	140	2,892	5,329
Over 2 months to 3 months	526	1	5,119	2,540
Over 3 months to 1 year	<u>1,465</u>	<u>10</u>	<u>23,862</u>	<u>2,287</u>
Total	<u>9,653</u>	<u>728</u>	<u>32,368</u>	<u>24,415</u>

Our trade and bills payables primarily relate to the purchase of raw materials from our suppliers, with credit terms of 30 to 90 days. For the year ended 31 December 2006, our trade and bills payables increased significantly, primarily because we purchase a large quantity of packaging materials in the second half of 2006 to replace the packaging materials written off as mentioned in the section headed “Financial Information — Inventory Analysis” in this prospectus.

### OTHER PAYABLES ANALYSIS

The following table sets out the breakdown of our other payables and accrual charges for the Track Record Period:

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Payable for acquisition of property, plant and equipment	6,361	3,543	59,558	49,323
Value-added tax and other tax payables	4,476	14,229	15,095	10,532
Accruals for expenses	511	2,221	10,163	18,689
Deposit received	<u>—</u>	<u>13</u>	<u>4,254</u>	<u>4,344</u>
	<u>11,348</u>	<u>20,006</u>	<u>89,070</u>	<u>82,888</u>

Other payables mainly comprised payables for acquisition of property, plant and equipment, value-added tax and other tax payables, deposit received and accruals for expenses. Accruals for expenses primarily relate to accrued staff costs, staff benefit and utilities expenses.



## FINANCIAL INFORMATION

Payables for acquisition of property, plant and equipment amounted to HK\$6.4 million, HK\$3.5 million, HK\$59.6 million and HK\$49.3 million as at 31 December 2004, 2005 and 2006 and 30 June 2007, respectively. The amounts represented amounts payable to contractors for the construction of the office building and the main factory in Dongguan.

Payables for acquisition of property, plant and equipment increased significantly for the year ended 31 December 2006 and the six months ended 30 June 2007, mainly due to the completion of construction in progress. We were required to pay the constructor upon completion of the inspection of quality of the construction.

Value-added tax and other tax payables amounted to HK\$4.5 million, HK\$14.2 million, HK\$15.1 million and HK\$10.5 million as at 31 December 2004, 2005, and 2006 and 30 June 2007, respectively. The increases mainly resulted from the increases in turnover.

Deposit received and accrual for expenses amounted to HK\$0.5 million, HK\$2.3 million, HK\$14.4 million and HK\$23.1 million as at 31 December 2004, 2005, and 2006 and 30 June 2007, respectively. The increase in the balance mainly resulted from the increase in the hiring of new staff due to our expansion and the increase in accrual for legal and professional fee for the preparation of listing. Starting from 2006, we received deposits from distributors in advance.

### QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

#### Credit Risk

Our principal financial assets are trade and other receivables and bank balances, which represent our maximum exposure to credit risk in relation to financial assets.

Our credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, our management continuously monitor the level of our exposure to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced.

The credit risk on bank deposits and bank balances is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

We have no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

#### Foreign Currency Risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect our financial results and cash flows. Our Directors consider that our Group is not exposed to significant foreign currency risk as majority of our transactions are denominated in RMB. However, the management monitors our foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

<b>FINANCIAL INFORMATION</b>
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### Capital Expenditure Plan

During the Track Record Period, we had incurred capital expenditures of approximately HK\$121.2 million, HK\$117.0 million, HK\$267.5 million and HK\$69.0 million for the three years ended 31 December 2006 and the six months ended 30 June 2007, respectively, mainly for the purpose of building new production sites and expansion in production capacity.

The total amount of our capital expenditures for the years ending 31 December 2007 and 2008 are expected to be approximately HK\$80.0 million and HK\$110.7 million, respectively and will be financed by internally generated funds and net proceeds from the Global Offering, respectively.

We plan to use about HK\$50.0 million of the net proceeds from the Global Offering to finance the construction cost of a new production plant and acquisition of new machineries. The new production plant will be used for the production of perfume, which is our new product. Currently, we do not have any similar production facilities. Out of HK\$50.0 million, about half of it will be used for the construction of building and the remaining half will be used for the acquisition of machinery.

We plan to use about 5.7% of the net proceeds from the Global Offering to finance the capital expenditure which represents the cost of furniture and fixtures of new retail outlets for implementation of our retail network expansion strategy. We plan to incur capital expenditure of approximately HK\$17.5 million, HK\$26.3 million, HK\$26.3 million and HK\$26.2 million for the four years ending 31 December 2008, 2009, 2010 and 2011, respectively.

We plan to use about 14.4% of the net proceeds from the Global Offering to finance the capital expenditure which represents the cost of leasehold improvements of new brand image stores in the PRC. We plan to incur capital expenditure of approximately HK\$43.2 million, HK\$60.0 million, HK\$60.0 million and HK\$76.8 million for the four years ending 31 December 2008, 2009, 2010 and 2011, respectively.

### Capital Commitments

The table below sets forth the capital commitments of our Group.

	As at 31 December			As at 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the combined financial statements in respect of — acquisition of property, plant and equipment	590	6,796	17,388	26

## FINANCIAL INFORMATION

As at 31 December 2006, capital commitment amounted to approximately HK\$17.4 million. The significant increase was primarily due to construction of a production facility in Dongguan by us which is expected to complete in 2007.

As at 30 June 2007, we had a total capital commitment of HK\$26,000 contracted for but not provided in respect of acquisition of property, plant and equipment.

After the acquisition of land use rights in 2005, our Group started to build a new production facility in Dongguan. The new production facility in Dongguan comprises seven factories, one office and laboratory building, four dormitories and two warehouses. Most of the construction was completed in 2006 and the first half of 2007.

One of the factories commenced operation in 2005 and another two commenced operation in 2006. All of them were operated for the production of skincare products and colour cosmetics. Out of the seven factories, two were leased to independent third parties and two were used by the Parent Group. For more details, please refer to the section headed “Connected Transactions” in this prospectus.

### COSMETICS BUSINESS BRANCHES

During the Track Record Period, Dongguan Proamine, Dongguan Gao Bao and Global Chemicals (China) have branches which are engaged in the Cosmetics Business. For more details, please refer to the section headed “Relationship with Controlling Shareholder — Background of the Parent Group” in this prospectus. The following sets forth the contribution by the Cosmetics Business Branches:

	For the year ended 31 December			For the six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
<b>Turnover</b>					
The Group	183,494	351,965	409,479	189,073	256,898
Cosmetics Business Branches	162,845	306,272	—	—	—
Percentage contributed	88.75%	87.02%	0.00%	0.00%	0.00%
<b>Gross profit</b>					
The Group	122,301	197,583	258,129	119,480	200,659
Cosmetics Business Branches	111,004	96,501	(9,429)	(4,533)	—
Percentage contributed	90.76%	48.84%	-3.65%	-3.79%	0.00%
<b>Profit before tax</b>					
The Group	66,657	115,473	172,456	91,982	134,891
Cosmetics Business Branches	60,651	65,351	(9,429)	(4,533)	—
Percentage contributed	90.99%	56.59%	-5.47%	-4.93%	0.00%
<b>Profit after tax</b>					
The Group	44,333	101,465	141,916	78,421	113,789
Cosmetics Business Branches	38,327	51,343	(9,429)	(4,533)	—
Percentage contributed	86.45%	50.60%	-6.64%	-5.78%	0.00%

## FINANCIAL INFORMATION

The following set forth the combined profit and loss account and balance sheet of the branches of Dongguan Proamine, Dongguan Gao Bao and Global Chemical (China):

	For the year ended 31 December			For the six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Turnover	162,845	306,272	—	—	—
Cost of goods sold	(51,841)	(209,771)	(9,429)	(4,533)	—
Gross profit	111,004	96,501	(9,429)	(4,533)	—
Other income	4,914	53	—	—	—
Selling and distribution expenses	(38,021)	(21,001)	—	—	—
Administrative expenses	(17,246)	(10,202)	—	—	—
Finance costs	—	—	—	—	—
Profit before taxation	60,651	65,351	(9,429)	(4,533)	—
Taxation	(22,324)	(14,008)	—	—	—
Profit after taxation	<u>38,327</u>	<u>51,343</u>	<u>(9,429)</u>	<u>(4,533)</u>	<u>—</u>

	For the year ended 31 December			For the six months ended 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	<u>61,897</u>	<u>52,315</u>	<u>43,209</u>	<u>—</u>
Current assets				
Inventories	13,185	—	—	—
Trade receivables	97,566	36,075	2,166	—
Amount due from fellow subsidiaries	67,939	45,692	—	—
	<u>178,690</u>	<u>81,767</u>	<u>2,166</u>	<u>—</u>
Current liabilities				
Trade and other payables	10,458	1,821	—	—
Amount due to a fellow subsidiary	4,253	4,376	4,176	—
	<u>14,711</u>	<u>6,197</u>	<u>4,176</u>	<u>—</u>
Net current assets (liabilities)	<u>163,979</u>	<u>75,570</u>	<u>(2,010)</u>	<u>—</u>
Net assets	<u>225,876</u>	<u>127,885</u>	<u>41,199</u>	<u>—</u>
Net assets attributable to headquarter	<u>225,876</u>	<u>127,885</u>	<u>41,199</u>	<u>—</u>

## FINANCIAL INFORMATION

The following set forth the financial information for the excluded business of the Cosmetics Business Branches during the Track Record Period:

	<b>For the year ended 31 December 2004</b>	<b>For the year ended 31 December 2005</b>	<b>For the year ended 31 December 2006</b>	<b>For the six months ended 30 June 2007</b>
	<i>HK\$000 (unaudited)</i>	<i>HK\$000 (unaudited)</i>	<i>HK\$000 (unaudited)</i>	<i>HK\$000 (unaudited)</i>
Non-current assets	349,023	540,564	631,863	634,220
Current assets	1,136,762	1,193,168	1,396,315	1,387,789
Current liabilities	(1,561,918)	(1,824,677)	(2,043,667)	(1,971,859)
Non-current liabilities	<u>(176,250)</u>	<u>(58,808)</u>	<u>(73)</u>	<u>(56)</u>
Net assets/(Liabilities)	<u>(252,383)</u>	<u>(149,752)</u>	<u>(15,562)</u>	<u>50,094</u>

	<b>For the year ended 31 December 2004</b>	<b>For the year ended 31 December 2005</b>	<b>For the year ended 31 December 2006</b>	<b>For the six months ended 30 June 2006</b>	<b>For the six months ended 30 June 2007</b>
	<i>HK\$000 (unaudited)</i>	<i>HK\$000 (unaudited)</i>	<i>HK\$000 (unaudited)</i>	<i>HK\$000 (unaudited)</i>	<i>HK\$000 (unaudited)</i>
Turnover	467,717	473,448	486,365	236,678	257,587
Profit before tax	66,705	81,118	54,079	37,507	29,177
Profit after tax	49,973	74,180	53,094	37,507	24,457

### Dividend Policy

During the Track Record Period, we declared dividends of HK\$210.0 million for the year ended 31 December 2006. Dividend payable to a minority shareholder of HK\$75.0 million was settled in 2006. On 6 August 2007, the Parent Group assigned to our Company certain loans which included the dividend of HK\$135.0 million payable to the Parent Group in the net sum of HK\$480,026,048 due from our Group to the Parent Group in consideration of our Company allotting and issuing one Share to the Parent Company, credited as fully paid. We intend to declare and pay dividends in the future. The payment and the amount of any dividends will depend on the results of our future operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospectus and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Dividend may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plan or at all. Our dividend distribution record in the past may not be used as a reference of basis to determine the level of dividends that may be declared or paid by us in the future.

## FINANCIAL INFORMATION

Subject to the factors described above, we currently intend to propose at our next annual shareholders meeting an annual dividend of approximately 40.0% of our net profit available for distribution to shareholders after the Global Offering.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2007 (being the date to which our latest audited combined financial statements were prepared).

### DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to illustrate the effect of the Global Offering on the combined net tangible assets of our Group as at 30 June 2007 as if they had taken place on 30 June 2007.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of our Group following the Global Offering or at any future date. It is prepared based on the net tangible assets of our Group as at 30 June 2007 as shown in the Accountants' Report, the text of which is set out in Appendix to this prospectus, and adjusted as follows:

	Audited combined net assets of the Group attributable to the equity holders of the Company as at 30 June 2007	Less: intangible assets of the Group as at 30 June 2007	Estimated net proceeds from the Global Offering	Unaudited pro forma net tangible assets of the Group attributable to the equity holders of the Company	Unaudited pro forma net tangible assets per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i> <i>(Note 3)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 4)</i>
Based on the Offer Price of HK\$6.18 per Share	<u>147,914</u>	<u>222,963</u>	<u>1,876,001</u>	<u>1,800,952</u>	<u>1.39</u>
Based on the Offer Price of HK\$4.88 per Share	<u>147,914</u>	<u>222,963</u>	<u>1,476,739</u>	<u>1,401,690</u>	<u>1.08</u>

## FINANCIAL INFORMATION

### Notes:

- (1) *The audited combined net assets of our Group attributable to the equity holders of our Company as at 30 June 2007 is extracted from the Accountants' Report in Appendix I to this prospectus after deducting the total combined liabilities.*
- (2) *The intangible assets represented the goodwill of our Group as at 30 June 2007 as disclosed in the Accountants' Report in Appendix I to the prospectus.*
- (3) *The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$6.18 per Share and HK\$4.88 per Share, after deducting of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may fall to be sold upon the exercise of the Over-allocation Option.*
- (4) *The unaudited pro forma net tangible assets per Share is arrived at after the adjustment referred to in the preceding paragraphs and on the basis that 1,300 million Shares were in issue, assuming that the Global Offering and the Capitalisation Issue have been completed on 30 June 2007 but takes no account of any Shares which may fall to be sold upon the exercise of the Over-allocation Option.*
- (5) *The property interests of the Group as at 30 September 2007 have been valued by BMI Appraisals Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. Since there is a valuation deficit arising from the valuation of the property interest of our Group amounting to HK\$33 million, no additional depreciation expenses would have been charged against the income statement had such assets been stated at valuation.*

### PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix III — “Profit Forecast”, our forecast profit attributable to our equity holders for the year ending 31 December 2007 is unlikely to be less than HK\$205.3 million under HKFRS.

Forecast combined profit attributable to equity

holders of the Company (*Notes 1 & 2*) . . . . . not less than HK\$205.3 million

Forecast fully diluted earnings per Share (*Note 3*) . . . . . not less than HK\$0.16

### Notes:

1. *The bases and assumptions on which the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 has been prepared are summarised in Appendix III to this prospectus.*
2. *The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 prepared by the Directors is based on the audited combined results of our Group for the six months ended 30 June 2007, our Group's unaudited combined management accounts for three months ended 30 September 2007 and a forecast of the combined results of our Group for the remaining three months ending 31 December 2007 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2007. The forecast has been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by our Group as stated in Accountants' Report set out in Appendix I to this prospectus.*
3. *The calculation of the forecast earnings per Share is based on the assumption that the Company had been listed since 1 January 2007 and a total number of 1,300 million Shares were in issued throughout the year.*

## FINANCIAL INFORMATION

### DISTRIBUTABLE RESERVES

Our distributable reserves amounted to approximately HK\$107.1 million as at 30 June 2007.

### PROPERTY VALUATION

Particulars of our Group's property interests are set out in Appendix IV to this prospectus. BMI Appraisals Limited, an independent property valuer, has valued our property interests as at 30 September 2007. The text of its letter, summary of valuation and the valuation certificates are set out in Appendix IV to this prospectus.

A reconciliation of the property interests of our Group and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

	<u>HK\$ millions</u>
Net book value of property interests as at 30 June 2007	328.5
Movement for the period from 30 June 2007 to 30 September 2007	(1.7)
— Additions	0
— Disposal	0
— Depreciation	1.7
Net book value as at 30 September 2007 (unaudited)	326.8
Valuation as at 30 September 2007	293.8
Net valuation deficit	33



## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

We intend to grow our business steadily by continuing to promote the “Marjorie Bertagne” (MB) brand name and to increase market penetration of our products in the PRC, Hong Kong and Macau.

To achieve this goal, we plan to leverage our competitive strengths and pursue the following strategies:

- continuing to expand our distribution network and product offerings in the PRC;
- expanding our brand portfolio and product offerings;
- diversifying our range of brands and products in the PRC and internationally;
- launching advertising and promotional campaigns; and
- maintaining our position in the PRC and Hong Kong while expanding overseas market penetration.

It is anticipated that our perfume products will be sold under the “Marjorie Bertagne” (MB) brand name. Some of our perfume products will also be sold as ODM and OEM products.

Please refer to the section headed “Business — Business Strategies” in this prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$5.53 per Share, being the mid-point of the proposed Offer Price range of HK\$4.88 to HK\$6.18 per Share, will be approximately HK\$1,670.0 million. We currently intend to use:

- approximately 3.0%, or approximately HK\$50.0 million, to finance construction costs of a new production plant and acquisition of new machinery. The new production plant will be used for the production of perfume, which is a new product of our Group;
- approximately 5.7%, or approximately HK\$96.3 million, to support our retail network expansion strategy. We intend to increase our market presence in first-tier cities such as Beijing, Shanghai and Guangzhou, as well as second- and third-tier cities by setting up approximately 275 dedicated counters, each with gross floor area of approximately 250 to 350 square feet over the next four years;

## FUTURE PLANS AND USE OF PROCEEDS

- approximately 15.0%, or approximately HK\$250.0 million, to develop and promote our new line of business such as our new “MB2” brand. “MB2” are targeted at the low- to medium-end customer segment and are planned to be sold in hypermarkets and cosmetics shops in the PRC;
- approximately 14.4%, or approximately HK\$240.0 million, to invest in our new brand image stores in first-tier cities such as Beijing, Shanghai and Guangzhou, as well as second-tier cities. We plan to open approximately 200 brand image stores within the next four years and the gross floor area of each brand image store will be approximately 1,200 square feet. In addition to retail service of our “Marjorie Bertagne” (MB) products, the brand image stores will also provide facial treatment services to customers. Each brand image store will be managed by a store manager, who will be our employee. The store manager will be responsible for the running of the store including staff recruitment and training. The store staff will be our distributors’ employees and shall receive their salaries from our distributors;
- approximately 34.5%, or approximately HK\$576.7 million will be spent over the next four years for our marketing and promotional activities, including approximately HK\$35.0 million for production of television advertisement and remuneration of our spokespersons annually in the next four years, approximately HK\$175.0 million for television airtime, approximately HK\$87.0 million for advertisement in printed media, and approximately HK\$174.7 million for other promotional activities such as participating in skincare products and colour cosmetics exhibitions and sponsorship activities, and product roadshows such as product launching press conferences and product presentations to our distributors and potential customers, to enhance the brand awareness of our “Marjorie Bertagne” (MB) products and also our new line of products such as “MB2” products and our “Marjorie Bertagne” (MB) fragrance and men’s products to be launched in the coming years;
- approximately 17.4%, or approximately HK\$290.0 million, to repay the outstanding amount of the Bridge Loan owed to DBS Bank (Hong Kong) Limited. The Bridge Loan was obtained by our Group from DBS Bank (Hong Kong) Limited for the repayment of the outstanding amount due to the Parent Group. The handling fee in relation to the Bridge Loan is HK\$300,000 and the interest rate is 2% per annum over HIBOR. The amount was borrowed for 24 days from 21 November 2007; and
- approximately 10.0%, or approximately HK\$167.0 million, for working capital requirements and general corporate purposes.

Assuming an Offer Price of HK\$6.18 per Offer Share (being the high-end of the stated range of the Offer Price between HK\$4.88 and HK\$6.18 per Offer Share), the amount of additional net proceeds to be received by the Company are estimated to be approximately HK\$200.0 million, which the Directors intend to apply as additional funding for our Group’s retail network expansion strategy, development and promotion of its new line of business such as its new “MB2” brand, investment in its new brand image stores in first-tier cities, marketing and promotional activities and general working capital in the same proportion in the use of proceeds as shown above.

## **FUTURE PLANS AND USE OF PROCEEDS**

Assuming an Offer Price of HK\$4.88 per Offer Share (being the low-end of the stated range of the Offer Price between HK\$4.88 and HK\$6.18 per Offer Share), the Directors intend that the respective amounts to be applied for each of the above purposes will be proportionately reduced.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

No agreements or undertakings have been signed in relation to the different uses of proceeds from the Global Offering. The net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering after deducting the related expenses, and assuming an Offer Price of HK\$5.53 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$4.88 and HK\$6.18 per Offer Share) and that the Over-allotment Option is not exercised in whole, are estimated to amount to approximately HK\$359.5 million. If the Over-allotment Option is exercised in full, and assuming an Offer Price of HK\$5.53 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$4.88 and HK\$6.18 per Offer Share), the Selling Shareholders will receive additional net proceeds of approximately HK\$323.5 million. We will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the exercise of Over-allotment Option. All of the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering will be for the account of the Selling Shareholders.

## UNDERWRITING

### **Hong Kong Underwriters**

#### *Joint Lead Managers*

Macquarie Securities Limited  
ICEA Securities Limited

#### *Co-Lead Managers*

BNP Paribas Capital (Asia Pacific) Limited  
DBS Asia Capital Limited  
Phillip Securities (HK) Limited

#### *Co-Managers*

BOCOM International Holdings Company Limited  
CAF Securities Company Limited  
First Shanghai Securities Limited  
Sun Hung Kai International Limited  
Taiwan Securities (Hong Kong) Company Limited

### **Underwriting Arrangements and Expenses**

#### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, we are offering 39,000,000 Public Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares to be issued and sold pursuant to the Global Offering as mentioned in this prospectus (including any additional Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Public Offer Shares which are being offered, but are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to the International Purchase Agreement having been signed, becoming unconditional and not having been terminated.

#### *Grounds for Termination*

The obligation of the Hong Kong Underwriters to subscribe for, or to procure subscribers for, the Public Offer Shares is subject to termination by notice in writing from the Global Coordinator (for itself

## UNDERWRITING

and on behalf of the Hong Kong Underwriters) if certain events, including but not limited to the following, shall occur prior to 8:00 a.m. on the Listing Date:

- (a) (i) any change (whether or not permanent) or development involving any prospective change (whether or not permanent) or any event or series of events resulting or likely to result in any change (whether or not permanent) or development involving any prospective change (whether or not permanent) in local, national, regional or international financial, monetary, exchange, fiscal, economic, industrial, political, military, regulatory or equity or financial market conditions in or affecting Hong Kong, the PRC, the United States, any member of the European Union and/or Japan shall have occurred, happened or come into effect;
- (ii) (1) any suspension or limitation on dealings or trading in shares or securities generally on the Stock Exchange, the Shanghai Stock Exchange, New York Stock Exchange, Inc., NASDAQ, American Stock Exchange, the London Stock Exchange, Euronext, and/or the Tokyo Stock Exchange shall have been imposed or declared or (2) any material disruption of settlements of securities or clearance services or any general moratorium on or disruption in commercial banking activities or foreign exchange trading in or affecting Hong Kong, the PRC, the United States, any member of the European Union and/or Japan shall have occurred;
- (iii) (1) any change in the system under which the value of the HK dollar is based on a trading range relative to the U.S. dollar or (2) a devaluation of the Renminbi against any foreign currencies shall have occurred;
- (iv) any new law or any change (whether or not forming part of a series of changes) in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the United States, any member of the European Union and/or Japan shall have been introduced or effected;
- (v) any change or development involving any prospective change or event or series of events resulting or likely to result in any change or development involving any prospective change in taxation or exchange control or in the implementation of any exchange control restrictions or foreign investment regulations in Hong Kong, the PRC, the United States and Japan shall have occurred;
- (vi) economic or other sanctions, in whatever form and whether direct or indirect, shall have been imposed by the United States, the European Union and/or Japan on any entity which is material to the revenues or operations of the Group (whether or not such entity is a member of the Group) or with respect to any territory in which such entity carries on a substantive part of its business;
- (vii) any event, or series of events, in the nature of force majeure, including without limitation, any act of God, act of government, outbreak or escalation of hostilities whether or not war is or has been actually declared or threat of hostilities, state of emergency, civil commotion, fire, flooding, earthquake, explosion, epidemic or pandemic outbreaks of

## UNDERWRITING

infectious disease (including but not limited to outbreaks of SARS, H5N1 or any other related or mutated forms of the same in Hong Kong or any part of the PRC), act of terrorism, lockdown of airspace and other modes of transportation, strike or lockout in or affecting Hong Kong, the PRC, the United States, any member of the European Union and/or Japan shall have occurred, happened, been declared or come into effect;

- (viii) any other change or development involving any prospective change or event or series of events resulting or likely to result in any change or development involving any prospective change in the condition (financial or other), business, properties or results of operations of the Group as a whole or affecting an investment in the Shares;
- (ix) any material litigation or claim being instigated or threatened against the Company, any of its subsidiaries which will or is reasonably likely to result in the Group incurring liability that is material to the Group as a whole;
- (x) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of the Company vacating his or her office in circumstances where the operations of the Group may be materially and adversely affected; or
- (xii) the commencement by any regulatory body of any public action against a Director in his or her capacity as such or an announcement by any regulatory body that it intends to take any such action; or
- (xiii) any material adverse change or development involving a prospective material adverse change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xiv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (xv) any loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xvi) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group;

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which in the sole and absolute opinion of the Global Coordinator:

- (1) has or will have or is likely to have a material adverse effect on the condition (financial or otherwise), business, properties, or operations of the Company and its subsidiaries taken as a whole; or
  - (2) has or will or is likely to have a material adverse effect on the pricing, marketability, level of applications in respect and/or successful completion of the Global Offering; or
  - (3) is or will or may make it impracticable, inadvisable or inexpedient or commercially not viable [A] for any material part of the Hong Kong Underwriting Agreement, the Public Offer and/or the Global Offering to be performed or implemented as envisaged or [B] to proceed with the Public Offer and/or the Global Offering on the terms and in the manner contemplated in this prospectus and under applicable laws; or
- (b) it comes to the notice of any of the Global Coordinator or any of the Joint Sponsors or any of the Hong Kong Underwriters that:
- (i) any of the warranties given by the Company under the Hong Kong Underwriting Agreement is untrue, inaccurate, misleading or breached when given or repeated;
  - (ii) any statement contained in this prospectus and the application forms, the Formal Notice or any announcement in connection with the Global Offering issued by the Company (including any supplement or amendment thereto) was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if this prospectus were to be issued or distributed at that time, constitute a material omission therefrom;
  - (iii) there has been a material breach on the part of the Company or any of the Selling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Purchase Agreement; or
  - (iv) any event, act or omission which gives rise to or is likely to give rise to any material liability on the part of any of the Company or the Selling Shareholders pursuant to the indemnity contained in Hong Kong Underwriting Agreement shall have occurred; or
  - (v) there shall have been any material adverse change or prospective material adverse change in the condition (financial or otherwise) or in the earnings, business, financial or trading position or prospects of the Group as a whole.

## UNDERWRITING

### *Undertakings*

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering or any issue of shares or securities in compliance with Rules 10.08(1) to (4) of the Listing Rules, our Company will not, at any time within six months from the Listing Date, issue any shares or other securities convertible into equity securities of our Company or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

Pursuant to Rule 10.08 of the Listing Rules, the Company has undertaken to the Stock Exchange that:

- (i) except pursuant to the Global Offering, the Over-allotment Option, the Capitalisation Issue and the exercise of options under the Share Option Scheme at any time during the period of six months from the date on which dealings in the Shares commence on the Stock Exchange (the “First Six-month Period”), it will not without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot or issue or agree to allot or issue any Shares or other securities of the Company that are convertible into or exercisable or exchangeable for or that represent the right to receive Shares (including warrants or other convertible securities) or grant or agree to grant any options or rights over any Shares or other securities of the Company that are convertible into or exercisable or exchangeable for or that represent the right to receive Shares or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or have any intention to do so; and
- (ii) within a period of six months commencing from the expiry of the First Six-month Period (the “Second Six-month Period”), it will not allot or issue any Shares or other securities of the Company that are convertible into or exercisable or exchangeable for or that represent the right to receive Shares (including warrants or other convertible securities) or grant or agree to grant any options or rights over any Shares or other securities of the Company that are convertible into or exercisable or exchangeable for or that represent the right to receive Shares or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so.

Pursuant to the Hong Kong Underwriting Agreement, the Company has undertaken to each of the Global Coordinator and the Hong Kong Underwriters (and is expected to undertake to the International Underwriters) that, except pursuant to the Global Offering, the Capitalisation Issue, the conversion of the REPS, and the grant or exercise of options under the Share Option Scheme, at any time after the date of the Hong Kong Underwriting Agreement and until the end of the First Six-month Period, the Company will not, and will cause each member of the Group not to, without the prior written consent of the Global Coordinator (on behalf of the Hong Kong Underwriters and the Joint Sponsors) and unless in compliance with the requirements of the Listing Rules:

- (i) offer, allot, issue, sell, agree to allot, issue or sell, grant or agree to grant any option, right or warrant over or otherwise dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares; or



## UNDERWRITING

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or any interest therein or such securities; or

(iii) offer or agree to do any of the foregoing or announce any intention to do so,

whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, whether or not any such delivery will be completed within the First Six-month Period, and whether there is any public disclosure that the Company will or may enter into any transaction described above. In the event of any disposal or circumstance as described in (i), (ii) or (iii) above of any Shares or any interest therein or any of the Company's securities within the Second Six-month Period, the Company will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for the Shares.

The Parent Company has undertaken to the Stock Exchange that, except pursuant to the Global Offering, the Over-allotment Option, the Capitalisation Issue and the grant or exercise of options under the Share Option Scheme, (i) it will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, at any time during the period commencing from the Latest Practicable Date and ending on the First Six-month Period, dispose of any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of such Shares; and (ii) it will not, without the prior written consent of the Stock Exchange, at any time during the Second Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Parent Company would then cease to be controlling shareholder (as defined in the Listing Rules).

The Parent Company has further undertakes to us and the Stock Exchange that it will, at any time after the date of this prospectus up to and including the date falling 12 months after the Listing Date, immediately inform us of:

- (a) any pledges or charges of any of our Shares or other share capital beneficially owned by it in favour of any authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, and the number of such Shares or other share capital so pledged or charged; and
- (b) any indication received by it, either verbal or written, from any such pledgee or chargee of any of our Shares or other share capital pledged or charged that any of such Shares or other share capital will be disposed of.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by the Parent Company and disclose such matters by way of a press notice which is published in accordance with applicable rules as soon as possible after being so informed by the Parent Company.

## UNDERWRITING

Each of the Parent Company and Cristal Marketing has undertaken to the Global Coordinator, Joint Sponsors and the Hong Kong Underwriters that except pursuant to the International Offer (including the Over-allotment Option) or the stock borrowing agreement, or for the transfer of Shares by Cristal Marketing to its holding company which holds the entire issued share capital of Cristal Marketing and that such holding company shall have first given a written undertaking in favour of the Company and the Global Coordinator agreeing to be bound by the obligations of Cristal Marketing under the Agreement (i) it and its associates (as defined in the Listing Rules) and its affiliates will not, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date, without the prior written consent of the Global Coordinator (on behalf of the Hong Kong Underwriters and the Joint Sponsors (in its absolute discretion but such consent shall not be unreasonably withheld in the case of a pledge of Shares held by Cristal Marketing effected and disclosed in accordance with Rule 10.07 of the Listing Rules), directly or indirectly offer for sale, sell, transfer, contract to sell or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, any lending, charges, pledges or encumbrances, or by entering into any swap, derivative or other arrangement which is designed to, or might reasonably be expected to, result in the transfer to another, in whole or in part, of any of the economic consequences of acquisition or ownership, whether settled by actual delivery, in cash or otherwise) any of the Shares in respect of which it is shown in this prospectus to be the beneficial owner, whether directly or indirectly, or any beneficial interest therein or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares; and (ii) in the following six month period, we will not undertake any of the above acts such that the Parent Company and Cristal Marketing, as a group, directly or indirectly cease to be controlling shareholders of the Company.

The Pre-IPO Investor has entered into a contractual 180-day lock up undertaking in our favour under the Subscription Agreement as more particularly described in the section headed “History and Reorganisation — Pre-IPO Investment” in this prospectus.

It is expected that each of the Selling Shareholders will enter into a 180-day lock up undertaking in favour of the Global Coordinator acting on behalf of the International Underwriters pursuant to the International Purchase Agreement.

### ***International Purchase Agreement***

In connection with the International Offer, we expect to enter into the International Purchase Agreement with, among others, the International Underwriters. Under the International Purchase Agreement, the International Underwriters would, subject to certain conditions, severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares initially being offered pursuant to the International Offer. Please refer to the section headed “Structure of the Global Offering — The International Offer” in this prospectus for further details.

## UNDERWRITING

Under the International Purchase Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Global Coordinator on behalf of the International Underwriters from the date of the International Purchase Agreement until 30 days from the last day for the lodging of applications under the Public Offer to require us to allot and issue up to an aggregate of 58,500,000 additional Shares, representing approximately 15% of the number of Offer Shares initially available under the Global Offering at the Offer Price, solely for the purpose of covering over-allocations in the International Offer, if any.

### ***Commission***

The Hong Kong Underwriters will receive from us a gross underwriting commission and management fee of 3.0% of the aggregate Offer Price payable for the Public Offer Shares, out of which they will pay any sub-underwriting commissions in respect of the Public Offer Shares. For unsubscribed Public Offer Shares reallocated to the International Offer, if any, we will pay to the International Underwriters an underwriting commission at the rate applicable to the International Offer. In addition, the Global Coordinator will receive a fixed and mandatory incentive fee of 1.0% and an additional discretionary incentive fee of 0.5% of the gross proceeds from the Global Offering (including any proceeds pursuant to the exercise of the Over-allotment Option).

### **Total Expenses**

The aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$134.9 million (assuming the Over-allotment Option is not exercised and an offer price of HK\$5.53 per Share, being the mid-point of the stated offer price range of HK\$4.88 to HK\$6.18 per Share) are payable by us and the Selling Shareholders in proportion to the number of Shares sold by us and the Selling Shareholders in the Global Offering.

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

### ***Underwriters' interest in the Group***

Save as disclosed in this prospectus and save for their obligations under the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, none of the Hong Kong Underwriters is interested directly or indirectly in any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in our Company or any other member of our Group.

## STRUCTURE OF THE GLOBAL OFFERING

### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$6.18 per Offer Share and is expected to be not less than HK\$4.88. If you apply for the Offer Shares under the Public Offer or the Preferential Offer, you must pay the maximum Offer Price of HK\$6.18 per Offer Share plus a 1.0% brokerage fee, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee, amounting to a total of HK\$6,242.36 per board lot of 1,000 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$6.18, we will refund the respective difference, including brokerage fee, SFC transaction levy and Stock Exchange trading fee, attributable to the surplus application monies, without interest. We will not pay interest on any refunded amounts. Further details are set out in the section headed “How to Apply for Public Offer Shares and Reserved Shares” in this prospectus.

### DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by agreement between us (for ourselves and on behalf of the Selling Shareholders) and the Global Coordinator, on behalf of the Underwriters, on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be at or around 12:00 noon, Friday, 7 December 2007 (or such later time as may be agreed by us and the Global Coordinator) and in any event no later than 7:00 p.m., Friday, 7 December 2007.

The Offer Price will not be more than HK\$6.18 per Offer Share and is expected to be not less than HK\$4.88 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, at any time prior to the morning of the last day for lodging applications under the Public Offer and the Preferential Offer.

The Global Coordinator, on behalf of the Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with our (for ourselves and on behalf of the Selling Shareholders) consent, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer and the Preferential Offer. In such a case, we will as soon as practicable following the decision to make such reduction at any time prior to the morning of the last day for lodging applications under the Public Offer and the Preferential Offer publish a notice in English in the South China Morning Post (in English) and in Chinese in the Hong Kong Economic Times (in Chinese) of the reduction of the indicative Offer Price range.

Upon issue of such a notice, the revised indicative Offer Price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised Offer Price range. In the notice, we will also confirm or revise, as appropriate, financial information which may change as a result of such reduction. **If you have already submitted an application for Public Offer Shares or Reserved Shares before the last day for lodging applications under the Public Offer and the Preferential Offer, you will not be allowed to subsequently withdraw your application, even if the indicative Offer Price range is reduced.** In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese). If we do not publish a notice in the South

## **STRUCTURE OF THE GLOBAL OFFERING**

China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) of a reduction of the indicative Offer Price range stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer and the Preferential Offer, the Offer Price, if agreed upon by us, will be within the indicative Offer Price range as stated in this prospectus.

If we (for ourselves and on behalf of the Selling Shareholders) and the Global Coordinator (on behalf of the Underwriters) are unable to reach agreement on the Offer Price by 7:00 p.m. on Friday, 7 December 2007, the Global Offering will not become unconditional and will lapse immediately.

We expect to publish an announcement of the Offer Price, together with the level of interest in the International Offer and the results of application results and basis of allotment of the Public Offer Shares and Reserved Shares, on or before Thursday, 13 December 2007.

### **THE GLOBAL OFFERING**

This prospectus is published in connection with the Public Offer as part of the Global Offering. The Global Offering comprises the Public Offer and the International Offer. We and the Selling Shareholders intend to make available initially up to 390,000,000 Offer Shares under the Global Offering, of which 351,000,000 Offer Shares will be conditionally placed pursuant to the International Offer and offered to the Qualifying GGT Shareholders under the Preferential Offer and the remaining 39,000,000 Offer Shares will initially be offered to the public in Hong Kong at the Offer Price under the Public Offer (subject, in each case, to reallocation on the basis described below under “The Public Offer”). We and the Selling Shareholders will conditionally place our Shares in the International Offer with institutional, professional and other investors whom we anticipate to have a sizable demand for the shares in Hong Kong and other jurisdictions outside the United States to non U.S. persons, in reliance on Regulation S, and in the United States with QIBs in reliance on Rule 144A.

You may apply for Offer Shares under the Public Offer or indicate an interest for Offer Shares under the International Offer, but you may not apply under both of these methods for the Offer Shares (except those eligible to apply for Reserved Shares in the Preferential Offer may also apply for Shares under the Public Offer (other than the Employee Shares), if eligible). In other words, you may only receive Shares under either the International Offer (other than the Preferential Offer) or the Public Offer, but not under both of these methods. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offer (other than the Preferential Offer) will involve selective marketing of our Shares to selected institutional, professional and other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Offer they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date. The Preferential Offer is open to Qualifying GGT Shareholders only.

## STRUCTURE OF THE GLOBAL OFFERING

Allocation of the Offer Shares pursuant to the International Offer (other than the Preferential Offer) will be determined by the Global Offering and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Public Offer Shares to investors under the Public Offer will be based on the level of valid applications received under the Public Offer. The basis of allocation may vary depending on the number of Public Offer Shares validly applied for by applicants. We intend to make the allocation on a pro-rata basis, although the allocation of Public Offer Shares could, where appropriate, consist of balloting, may, if necessary, allocate the Public Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

In connection with the Global Offering, Cristal Marketing intends to grant the Global Coordinator the Over-allotment Option to the International Underwriters exercisable by the Global Coordinator on behalf of the International Underwriters. Further details are set out in the section headed "Structure of the Global Offering — The Over-allotment Option" in this prospectus. The Over-allotment Option gives the Global Coordinator the right exercisable at any time from the date of the International Purchase Agreement until 30 days from the last day for the lodging of applications under the Public Offer which is expected to expire on 6 January 2008 to require Cristal Marketing to sell up to an aggregate of 58,500,000 additional Shares, representing approximately 15% of the initial size of the Global Offering at the Offer Price solely to cover over-allocations in the International Offer, if any. The Global Coordinator may also cover such over-allocations by purchasing the Offer Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations.

The 390,000,000 Offer Shares initially being offered in the Global Offering will represent approximately 30% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Global Coordinator exercises the Over-allotment Option in full, the 448,500,000 Offer Shares will represent approximately 34.5% of our enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

The Global Offering is fully underwritten by the Hong Kong Underwriters and the International Offer is expected to be fully underwritten by the International Underwriters in each case on a several basis, each being subject to the conditions set out in the section headed "Structure of the Global Offering — Conditions of the Public Offer" in this prospectus. We entered into the Hong Kong Underwriting Agreement on 3 December 2007 and, subject to an agreement on the Offer Price between us and the Global Coordinator (on behalf of the Underwriters), we expect to enter into the International Purchase Agreement on 7 December 2007. The Hong Kong Underwriting Agreement and the International Purchase Agreement are expected to be conditional upon each other. The Global Offering is subject to the conditions set out in



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the section headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus. In particular, we and the Global Coordinator (on behalf of the Underwriters) must agree on the Offer Price. The Hong Kong Underwriting Agreement was entered into on 3 December 2007, subject to an agreement on the Offer Price between the Global Coordinator (on behalf of the Underwriters) and us.

### THE PUBLIC OFFER

The Public Offer is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions set out in the Hong Kong Underwriting Agreement) and described in the section headed “Structure of the Global Offering — Conditions of the Public Offer” in this prospectus for the subscription of, initially, 39,000,000 Offer Shares at the Offer Price (representing approximately 10% of the total number of the Offer Shares initially available under the Global Offering). Subject to the reallocation of Offer Shares between the International Offer and the Public Offer, the Public Offer Shares will represent approximately 3% of our enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

The total number of the Public Offer Shares (after taking into account of any reallocation referred to below and deducting 3,900,000 Public Offer Shares available for subscription by Eligible Employees using the **PINK** Application Forms) available under the Public Offer is to be divided equally into two pools for allocation purposes:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants (other than applicants making employee subscription applications on **PINK** Application Forms) who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less; and
- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants (other than applicants making employee subscription applications on **PINK** Application Forms) who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable) and up to the value of pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Applicants can only receive an allocation of the Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the Public Offer Shares initially being offered for subscription under the Public Offer after deducting the 3,900,000 Public Offer Shares available for subscription by Eligible Employees using the **PINK** Application Forms (that is, 17,550,000 Public Offer Shares) will be rejected. Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the

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application has not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offer (except for the Reserved Shares under the Preferential Offer), and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The Offer Shares to be offered in the Public Offer and the International Offer may, in certain circumstances, be reallocated as between these offerings at the sole discretion of the Global Coordinator.

The allocation of the Offer Shares between the Public Offer and the International Offer is subject to the following adjustments:

- if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Public Offer, then the International Offer Shares will be reallocated to the Public Offer from the International Offer, so that the total number of the Offer Shares available under the Public Offer will be 117,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
- if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Public Offer, then the number of International Offer Shares to be reallocated to the Public Offer from the International Offer will be increased, so that the total number of the Offer Shares available under the Public Offer will be 156,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering (before any exercise of the Overallotment Option); and
- if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then the number of International Offer Shares to be reallocated to the Public Offer from the International Offer will be increased, so that the total number of the Offer Shares available under the Public Offer will be 195,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In each such case, the additional Offer Shares reallocated to the Public Offer will be allocated equally (subject to adjustment of odd lot size) between pool A and pool B and the number of Offer Shares allocated to the International Offer will be correspondingly reduced.

We will reject multiple applications within pool A or pool B, and between the two pools. We and the Global Coordinator will take reasonable steps to identify and reject applications under the Public Offer from investors who have received Offer Shares in the International Offer (except for the Reserved Shares under the Preferential Offer), and to identify and reject indications of interest in the International Offer (except for the Reserved Shares under the Preferential Offer) from investors who have received Offer Shares in the Public Offer.



## **STRUCTURE OF THE GLOBAL OFFERING**

In addition, if the Public Offer is not fully subscribed, the Global Coordinator will have the discretion (but shall not be under any obligation) to reallocate to the International Offer all or any unsubscribed Public Offer Shares in such proportion and amounts as it deems appropriate. Conversely, the Global Coordinator may at its discretion reallocate Offer Shares from the International Offer to the Public Offer to satisfy valid applications under the Public Offer.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Public Offer and the Preferential Offer.

### **CONDITIONS OF THE PUBLIC OFFER**

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional on, among other things:

- the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares to be issued pursuant to the Public Offer, including any additional Shares which may be issued under the Over-allotment Option, and such listing and permission not subsequently having been revoked prior to the commencement of dealings in our Shares on the Stock Exchange;
- the Offer Price having been duly determined on or about the Price Determination Date and in any event no later than 7:00 p.m. on Friday, 7 December 2007;
- the execution and delivery of the International Purchase Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Global Coordinator, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective Underwriting Agreements,

in each case, on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Public Offer and the International Offer is conditional upon, among other things, the other offer becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions and any other applicable conditions are not fulfilled or waived prior to the time and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, we will return all application monies to the applicants, without interest and on the terms

## STRUCTURE OF THE GLOBAL OFFERING

set out in the section headed “How to Apply for Public Offer Shares and Reserved Shares” in this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

**We expect to issue Share certificates for the Offer Shares on 13 December 2007. However, these Share certificates will only become valid certificates of title at 8:00 a.m. on 14 December 2007, provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Grounds for Termination” in this prospectus has not been exercised.**

### EMPLOYEE SUBSCRIPTION

Up to a maximum of 3,900,000 Public Offer Shares (the “Employee Shares”), representing 10% of the total number of Shares initially available under the Public Offer and approximately 1% of the Offer Shares, will be available for subscription by the Eligible Employees on a preferential basis, if their applications for the Public Offer Shares are made on the **PINK** Application Forms.

Allocation of these Employee Shares will be based on the written guidelines consistent with the allocation guidelines contained in Practice Note 20 of the Listing Rules and distributed to the Eligible Employees. Under such written guidelines, the allocation will be made on a pro-rata basis in an equitable manner based solely on the level of valid applications received from Eligible Employees. The allocation will not be based on the seniority or the length of service of the Eligible Employees. No favour will be given to the Eligible Employees who apply for a large number of Employee Shares and applications made on **PINK** Application Forms for more than the maximum number of Employee Shares available for subscription by Eligible Employees will be rejected.

In case not all the 3,900,000 Shares are subscribed by the Eligible Employees, the under-subscribed Shares will be available for subscription by the public under the Public Offer. Eligible Employees who have applied for the Employee Shares are not entitled to apply for Reserved Shares under the Preferential Offer.

### THE PREFERENTIAL OFFER

In order to enable the shareholders of the Parent Company to participate in the Global Offering on a preferential basis as to allocation only, an aggregate of 19,500,000 Reserved Shares (representing approximately 5% of the Offer Shares and approximately 1.50% of our enlarged share capital upon completion of the Global Offering assuming that the Over-allotment Option is not exercised) are available in the Preferential Offer for the Qualifying GGT Shareholders on the basis of an Assured Entitlement of one Reserved Share for every whole multiple of 60.65 GGT Shares held by them at the close of business on the Record Date. Any holder of less than 60.65 GGT Shares at the close of business on the Record Date will not be entitled to apply for the Reserved Shares. The Reserved Shares are being offered out of the Offer Shares being offered under the International Offer. The Preferential Offer will not be subject to clawback arrangement between the International Offer and the Public Offer. Qualifying GGT Shareholders who have applied for the Reserved Shares under the Preferential Offer are not entitled to apply for the Employee Shares.

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**The Assured Entitlement may represent Shares not in a multiple of a full board lot of 1,000 Shares, and dealings in odd lots of the Shares may be at a price below their prevailing market price.**

A **BLUE** Application Form will be despatched to each Qualifying GGT Shareholder, together with a copy of this prospectus. Qualifying GGT Shareholders are permitted to apply for a number of Reserved Shares which is greater than, less than or equal to, their Assured Entitlement under the Preferential Offer. A valid application in respect of a number of Reserved Shares less than or equal to a Qualifying GGT Shareholder's Assured Entitlement will be accepted in full, subject to the terms and conditions as mentioned in this prospectus and the **BLUE** Application Forms. Where a Qualifying GGT Shareholder applies for a number of Reserved Shares which is greater than his or her Assured Entitlement, his or her Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient available Reserved Shares resulting from other Qualifying GGT Shareholders declining to take up some or all of their Assured Entitlement. The Global Coordinator, on behalf of the Underwriters, will allocate any Assured Entitlement not taken up by Qualifying GGT Shareholders first to satisfy the excess applications for Reserved Shares from Qualifying GGT Shareholders on a fair and reasonable basis on the principles that (1) preference will be given to applications for less than a board lot of our Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse this mechanism; and (2) subject to availability of excess Shares after allocation under principle (1) above, the excess Shares will be allocated to Qualifying GGT Shareholders based on a sliding scale with reference to the number of the excess Shares applied by them (i.e. Qualifying GGT Shareholders applying for smaller number of Shares are allocated with a higher percentage of successful application but will receive fewer number of Shares; whereas Qualifying GGT Shareholders applying for larger number of Shares are allocated with a smaller percentage of successful application but will receive higher number of Shares) and thereafter, at the discretion of the Global Coordinator, to other investors in the International Offer (other than the Preferential Offer).

In addition to any application for Reserved Shares, Qualifying GGT Shareholders will be entitled to make one application for the Offer Shares on **WHITE** or **YELLOW** Application Forms or by giving electronic application instruction to HKSCC via CCASS. Qualifying GGT Shareholders will receive no preference as to entitlement or allocation in respect of applications for Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving electronic application instruction to HKSCC via CCASS.

**Assured Entitlement of Qualifying GGT Shareholders are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. Any Shares issued pursuant to the Preferential Offer will be credited as fully paid, ranking *pari passu* in all respects with other Shares then in issue except for the Capitalisation Issue. The Global Coordinator has the authority to reallocate all or any Reserved Shares not taken up by Qualifying GGT Shareholders to other investors in the International Offer (other than the Preferential Offer).**

The procedure for application under and the terms and conditions of the Preferential Offer are set out in the section headed "How to Apply for Public Offer Shares and Reserved Shares — How to Apply for Public Offer Shares and Reserved Shares" in this prospectus and on the **BLUE** Application Form.

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### THE INTERNATIONAL OFFER

The number of Offer Shares to be initially offered for subscription or purchase under the International Offer will be 286,000,000 Offer Shares to be offered by us and 65,000,000 Shares to be offered by the Selling Shareholders, together representing 90% of the Offer Shares initially available under the Global Offering. The International Offer is subject to the Public Offer being unconditional.

Pursuant to the International Offer, the International Offer Shares will be conditionally placed by the International Underwriters, or through selling agents appointed by them, with professional, institutional, corporate and other investors anticipated to have a sizeable demand for Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S and in the United States with QIBs in reliance on Rule 144A.

The Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offer, and who has made an application under the Public Offer to provide sufficient information to the Global Coordinator so as to allow it to identify the relevant applications under the Public Offer and to ensure that such investor is excluded from any application of the Offer Shares under the Public Offer.

### THE CORNERSTONE PLACING

#### Terms of the Cornerstone Placing

As part of the International Offer, the Global Coordinator and we have respectively entered into a binding corporate placing agreement with each of the Cornerstone Investors, who in aggregate have agreed to subscribe at the Offer Price for such number of Offer Shares that may be purchased with US\$20,000,000 (equivalent to HK\$156,360,000), rounded down to the nearest board lot, under which:

- Chow Tai Fook Nominee Limited will subscribe at the Offer Price for such number of Offer Shares that may be purchased with US\$10,000,000 (for illustrative purpose equivalent to approximately HK\$78,180,000), rounded down to the nearest board lot. Assuming the lowest price of the estimated Offer Price of HK\$4.88, the total number of Shares subscribed by Chow Tai Fook Nominee Limited would be 16,020,000 Shares, which represents approximately 4.56% of the initial International Offer Shares, or approximately 1.23% of our Company's enlarged share capital immediately following the completion of the Capitalisation Issue and the Global Offering, assuming the Over-allotment Option is not exercised, or approximately 4.11% of the number of Offer Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised.
- World Fund Pte. Limited will subscribe at the Offer Price for such number of Offer Shares that may be purchased with US\$10,000,000 (for illustrative purpose equivalent to approximately HK\$78,180,000), rounded down to the nearest board lot. Assuming the lowest price of the estimated Offer Price of HK\$4.88, the total number of Shares subscribed by World Fund Pte. Limited would be 16,020,000 Shares, which represents approximately 4.56% of the initial International Offer Shares, or approximately 1.23% of our Company's enlarged share capital

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immediately following the completion of the Capitalisation Issue and the Global Offering, assuming the Over-allotment Option is not exercised, or approximately 4.11% of the number of Offer Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised.

Assuming an Offer Price of HK\$4.88 (being the lowest price of the estimated Offer Price range), the total number of Shares subscribed by the Cornerstone Investors would be 32,040,000 Shares, rounded down to the nearest board lot, which represent approximately 9.13% of the initial International Offer Shares, or approximately 2.46% of our Company's enlarged share capital immediately following the completion of the Capitalisation Issue and the Global Offering, assuming the Over-allotment Option is not exercised, or approximately 8.22% of the number of Offer Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised.

The Cornerstone Investors and all of their beneficial owners are independent third-parties not connected with the Company. We and the Joint Sponsors are satisfied, after having made all reasonable enquiries, that each of the Cornerstone Investors and their beneficial owners are independent of one another. Each of the Cornerstone Investors will not be a substantial shareholder of the Company, and will not subscribe for any Offer Shares under the Global Offering other than pursuant to the corporate placing agreements referred to above. The Shares to be subscribed by any of the Cornerstone Investors will not be affected by any re-allocation of Shares between the International Offer and the Public Offer in the event of over-subscription under the Public Offer as described in the section headed "Structure of the Global Offering — The Public Offer" nor any exercise of the Over-allotment Option.

Chow Tai Fook Nominee Limited is a private company incorporated in Hong Kong and is principally engaged in investment holding business. It is wholly and beneficially owned by Dato' Dr. Cheng Yu-Tung.

World Fund Pte. Limited is a private company incorporated in Singapore and is a wholly-owned subsidiary of Oxford Atlantic Limited. World Fund Pte. Limited is principally engaged in investment holding. Oxford Atlantic Limited is wholly and beneficially owned by Henry Sy Sr.. Henry Sy Sr. is the founder and chairman of SM Prime Holdings Inc., the shares of which are listed on the Philippine Stock Exchange. SM Prime Holdings Inc. is the Philippines' largest mall operator. For the avoidance of doubt, the subscription by World Fund Pte. Limited for the Offer Shares pursuant to the corporate placing agreement is not a subscription by SM Prime Holdings Inc..

The Shares to be held by the Cornerstone Investors pursuant to the abovesaid corporate placing agreements will be counted towards the public float of the Company.

### **Conditions Precedent**

The subscription obligation of each of the Cornerstone Investors is conditional upon the Underwriting Agreements being entered into and having become unconditional in accordance with their respective terms or as subsequently varied by agreement of the parties thereto.

## STRUCTURE OF THE GLOBAL OFFERING

### **Restrictions on Disposals by the Cornerstone Investors**

Each of the Cornerstone Investors has agreed that it will not, at any time during the period of six months following the date of commencement of dealings in the Shares on the Stock Exchange, directly or indirectly, dispose of any Shares subscribed pursuant to the corporate placing agreement other than transfers to any of its wholly-owned subsidiaries and on the basis that the transferee will be subject to the restriction on disposals imposed on it.

Each of the Cornerstone Investors has also agreed that in the event of any disposal of any of its Shares at any time after the six-month lock-up period, it shall use all reasonable endeavours to ensure that any such disposal will not create a disorderly or false market for the Shares and is otherwise in compliance with the SFO.

### **THE OVER-ALLOTMENT OPTION**

In connection with the Global Offering, Cristal Marketing intends to grant the Over-allotment Option to the Global Coordinator on behalf of the International Underwriters. The Over-allotment Option gives the Global Coordinator the right exercisable at any time from the date of the International Purchase Agreement until 30 days from the last day for the lodging of applications under the Public Offer to require Cristal Marketing to sell up to an aggregate of 58,500,000 additional Shares, representing in aggregate 15% of the initial size of the Global Offering at the Offer Price solely to cover over-allocations in the International Offer, if any. The Global Coordinator may also cover such over-allocations by purchasing Shares in the secondary market or by a combination of purchase in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. In the event that the Over-allotment Option is exercised, a press announcement will be made.

In order to facilitate the settlement of over-allocations in connection with the International Offer, the Global Coordinator may choose to borrow Shares from the Parent Company under the stock borrowing arrangement between the Global Coordinator and the Parent Company, or acquire Shares from other sources. Such stock borrowing arrangement will not be subject to the restrictions of Rule 10.07(1) of the Listing Rules provided that the requirements set out in Rule 10.07(3) are complied with:

- (a) the stock borrowing arrangement with the Parent Company will only be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- (b) the maximum number of Shares to be borrowed from the Parent Company will be limited to the maximum number of Shares which may be sold upon full exercise of the Over-allotment Option;
- (c) the same number of Shares so borrowed from the Parent Company is returned to the Parent Company or its nominees (as the case may be) no later than three Business Days following the earlier of (i) the last day on which the Over-allotment Option may be exercised; or (ii) the date on which the Over-allotment Option is exercised in full;

## STRUCTURE OF THE GLOBAL OFFERING

- (d) the borrowing of Shares pursuant to the stock borrowing arrangement with the Parent Company will be effected in compliance with applicable provisions of the Listing Rules, laws and other regulatory requirements; and
- (e) no payments will be made to the Parent Company by the Global Coordinator in relation to such stock borrowing arrangement.

### STABILISING ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the initial public offer prices. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing from the Listing Date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold upon exercise of the Over-allotment Option, being 58,500,000 Shares, which is approximately 15% of the Shares initially available under the Global Offering.

The Stabilising Manager or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

- (i) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of our Shares; and/or
- (ii) in connection with any action described in paragraph (i) above:
  - (A) (1) over-allocate our Shares; or
  - (2) sell or agree to sell our Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of our Shares;
  - (B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (A) above;



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- (C) sell or agree to sell any of our Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or
  
- (D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilising Manager or any person acting for it, which may include a decline in the market price of our Shares.

Stabilisation cannot be used to support the price of our Shares for longer than the stabilisation period, which begins on the day on which dealings in our Shares commence on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Public Offer. The stabilisation period is expected to expire on 6 January 2008. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore their market price, could fall. A public announcement will be made within seven days after the end of the stabilising period in accordance with the Securities and Futures (Price Stabilizing) Rules of the SFO.

Any stabilising action taken by the Stabilising Manager, or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilisation period. Stabilisation bids or market purchases effected in the course of the stabilising action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our Shares.

### **DEALING**

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 14 December 2007, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on Friday, 14 December 2007. The Shares will be traded on the Main Board in board lots size of 1,000 Shares each.



## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

### 1. HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

You may apply for the Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** Application Form; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Public Offer Shares on your behalf.

In addition, you may apply by

- using a **PINK** Application Form, if you are an Eligible Employee; or
- using a **BLUE** Application Form, if you are a Qualifying GGT Shareholder.

### 2. WHICH APPLICATION METHOD YOU SHOULD USE

#### (a) **WHITE Application Forms**

Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.

#### (b) **YELLOW Application Forms**

Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

#### (c) **BLUE Application Forms**

Use a **BLUE** Application Form despatched to you by us if you are a Qualifying GGT Shareholder applying for the Reserved Shares. Qualifying GGT Shareholders may apply on an assured basis for a number of Reserved Shares less than or equal to their Assured Entitlement, which will be specified on their **BLUE** Application Forms. Qualifying GGT Shareholders may also apply for a number of Reserved Shares in excess of their Assured Entitlement specified on their **BLUE** Application Forms.

#### (d) **PINK Application Forms**

Use a **PINK** Application Form if you are an Eligible Employee and would like your application to be given preferential consideration. Up to 3,900,000 Public Offer Shares, representing approximately 10% of the Public Offer Shares initially available for subscription under the Public Offer, are available for subscription by Eligible Employees.

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

(e) **Instruct HKSCC to make an electronic application on your behalf**

Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf via CCASS. Any Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

### 3. WHERE TO COLLECT THE APPLICATION FORMS

(a) You can collect a **WHITE** Application Form and a prospectus from:

**Any participant of the Stock Exchange**

or

**Macquarie Securities Limited**

19th Floor CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

or

**ICEA Securities Limited**

26th Floor, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

or

**BNP Paribas Capital (Asia Pacific) Limited**

63/F Two International Finance Centre  
8 Finance Street  
Central, Hong Kong

or

**DBS Asia Capital Limited**

22/F The Center  
99 Queen's Road Central  
Hong Kong

or

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

**BOCOM International Holdings Company Limited**

9th Floor, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

or

**CAF Securities Company Limited**

13/F Fairmont House  
8 Cotton Tree Drive  
Central, Hong Kong

or

**First Shanghai Securities Limited**

19/F Wing On House  
71 Des Voeux Road  
Central, Hong Kong

or

**Phillip Securities (HK) Limited**

11/F, United Centre  
95 Queensway  
Hong Kong

or

**Sun Hung Kai International Limited**

1201 CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

or

**Taiwan Securities (Hong Kong) Company Limited**

Room 2803, 28/F., Tower I, Admiralty Centre  
18 Harcourt Road  
Hong Kong

or any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:

<b>Branch Name</b>	<b>Address</b>
<b>Hong Kong Island</b>	
Hong Kong Branch	20 Pedder Street, Central, Hong Kong

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

<b>Branch Name</b>	<b>Address</b>
Taikoo Shing Sub-Branch	Shop 38, G/F., City Plaza 2, 18 Taikoo Shing Road
Hennessy Road Sub-Branch	368 Hennessy Road, Wanchai
<b>Kowloon</b>	
Kowloon Sub-Branch	563 Nathan Road
Hunghom Sub-Branch	1-3A Tak Man Street, Whampoa Estate, Hunghom, Kowloon
Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
Wong Tai Sin Sub-Branch	Shops 127-129, 1/F Lung Cheung Mall, 134 Lung Cheung Road, Wong Tai Sin
<b>New Territories</b>	
Tsuen Wan Sub-Branch	Shop G10-11, Pacific Commercial Plaza, Bo Shek Mansion, 328 Sha Tsui Road
Ma On Shan Sub-Branch	Shop 3038A, Level 3, Sunshine Plaza, Ma On Shan
Tseung Kwan O Sub-Branch	Shops 253-255, Metro City Shopping Arcade, Phase I, Tseung Kwan O

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

<b>Branch Name</b>	<b>Branch Address</b>
<b>Hong Kong Island</b>	
Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
Hennessy Road Branch	399 Hennessy Road, Wanchai
Leighton Centre Branch	Shop 12-16, UG/F, Leighton Centre, 77 Leighton Road, Causeway Bay
Aberdeen Branch	Shop 4A, G/F, Aberdeen Centre Site 5, No.6 Nam Ning Street, Aberdeen
<b>Kowloon</b>	
Kwun Tong Branch	1A Yue Man Square, Kwun Tong
Lok Fu Shopping Centre Branch	Shop S25-S27, 2/F., Lok Fu Shopping Centre
Chatham Road Branch	Shop No. 1, 2, 3, G/F, Katherine House, No. 53-55 Chatham Road South, Tsimshatsui
<b>New Territories</b>	
Tseung Kwan O Branch	Shop G37-40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O
Tuen Mun Town Plaza Branch	Shop No. G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun
City One Shatin Branch	Shop 30-33, G/F, Ngan Shing Comm. Centre, City One Shatin

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

- (b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 4 December 2007 till 12:00 noon on Friday, 7 December 2007 from:
- the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (c) Your broker who may have **YELLOW** Application Forms and Prospectus available.
- (d) You may collect a **PINK** Application Form and a prospectus from our Company Secretary, Ng Yuk Yeung, at our principal place of business in Hong Kong at 3301, 3401-06, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.
- (e) A **BLUE** Application Form will be despatched with an electronic copy of this prospectus on CD ROM to you by us if you are a Qualifying GGT Shareholder with an Assured Entitlement. Printed copies of this prospectus are available at the Hong Kong share registrar, Tricor Investor Services Limited, 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong between 9:00 a.m. on 4 December 2007 and 12:00 noon on 7 December 2007 for exclusive collection by Qualifying GGT Shareholders.

#### 4. WHEN TO APPLY FOR THE PUBLIC OFFER SHARES

(a) **WHITE or YELLOW Application Forms**

Completed **WHITE** or **YELLOW** Application Form, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Friday, 7 December 2007, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the Bank of Communications Co., Ltd. Hong Kong Branch and Standard Chartered Bank (Hong Kong) Limited listed under the paragraph headed "Where to collect the Application Forms" in this section at the following times:

4 December 2007 — 9:00 a.m. to 5:00 p.m.  
5 December 2007 — 9:00 a.m. to 5:00 p.m.  
6 December 2007 — 9:00 a.m. to 5:00 p.m.  
7 December 2007 — 9:00 a.m. to 12:00 noon

(b) **PINK Application Form**

Completed **PINK** Application Forms, together with payment attached, must be returned to our Company Secretary, Ng Yuk Yeung, at our principal place of business in Hong Kong at 3301, 3401-06, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong by 4:00 p.m. on Thursday, 6 December 2007.

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

### (c) **BLUE Application Form**

Completed **BLUE** Application Form, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Friday, 7 December 2007, or, if the application lists are not open on that day, by the time and date specified in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **BLUE** Application Form, with payment attached, should be lodged in the special collection boxes provided at Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong at the following times:

4 December 2007 — 9:00 a.m. to 5:00 p.m.  
5 December 2007 — 9:00 a.m. to 5:00 p.m.  
6 December 2007 — 9:00 a.m. to 5:00 p.m.  
7 December 2007 — 9:00 a.m. to 12:00 noon

### (d) **Electronic application instructions to HKSCC**

CCASS Broker/Custodian Participants should input electronic application instructions via CCASS at the following times:

4 December 2007 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>  
5 December 2007 — 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>  
6 December 2007 — 8:00 a.m. to 8:30 p.m. <sup>(1)</sup>  
7 December 2007 — 8:00 a.m. <sup>(1)</sup> to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on 4 December 2007 until 12:00 noon on 7 December 2007 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Friday, 7 December 2007 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

### (e) **Application lists**

The application lists will be opened from 11:45 a.m. to 12:00 noon, 7 December 2007, except as provided in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below. No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

### (f) Effect of bad weather conditions on the opening of the application lists

The application lists will not be open in relation to the Public Offer 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 time between 9:00 a.m. and 12:00 noon on Friday, 7 December 2007, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

## 5. HOW TO APPLY USING A WHITE, YELLOW, PINK OR BLUE APPLICATION FORM

- (a) Obtain a **WHITE, YELLOW, PINK** or **BLUE** Application Form.
- (b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form. **PINK** Application Form applicants should apply in your own name.
- (c) Decide how many Offer Shares you would like to apply for. Calculate the amount you must pay on the basis of the maximum Offer Price of HK\$6.18 per Offer Share, plus brokerage of 1%, the SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005%.
- (d) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, us and the Global Coordinator (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.
- (e) Each Application Form must be accompanied by either one cheque or one banker’s cashier order, which must be stapled to the top left-hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in HK\$;
- be drawn on your Hong Kong dollar bank account in Hong Kong;

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name on the Application Form. If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
- be made payable to “Bank of Communications (Nominee) Co. Ltd — Bio Beauty Public Offer” for Public Offer Shares or payable to “Bank of Communications (Nominee) Co. Ltd — Bio Beauty Preferential Offer” for Reserved Shares;
- be crossed “Account Payee Only”; and
- not be post-dated.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker’s cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker’s cashier order must be the same as the name of the first-named joint applicant;
- be in HK\$;
- be made payable to “Bank of Communications (Nominee) Co. Ltd — Bio Beauty Public Offer” for Public Offer Shares or payable to “Bank of Communications (Nominee) Co. Ltd — Bio Beauty Preferential Offer” for Reserved Shares;
- be crossed “Account Payee Only”; and
- not be post-dated.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

- (f) If you are applying for Shares using a **WHITE** or **YELLOW** Application Form, you should lodge your Application Form in one of the collection boxes by the time and at one of the locations, as referred to in sub-paragraph 4(a) above. If you are applying using a **PINK** Application Form, you should lodge your application with our Company Secretary as referred to sub-paragraph 4(b) above. If you are applying for Shares using a **BLUE** Application Form, you should lodge your Application Form in the collection box at Tricor Investor Services Limited, as referred to in sub-paragraph 4(c) above.



## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

(g) Multiple or suspected multiple applications are liable to be rejected. Please refer to the paragraph headed “How many applications you can make” in the section headed “Terms and conditions of the Public Offer and Preferential Offer” in this prospectus.

(h) In order for the **YELLOW** Application Forms to be valid:

You must sign on the first page of the application form. Only written signatures will be accepted.

- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
  - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- If you are applying as an individual CCASS Investor Participant:
  - you must fill in your full name and your Hong Kong Identity Card number; and
  - you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
  - you must insert all joint CCASS Investor Participants’ names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
  - you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a corporate CCASS Investor Participant:
  - you must insert your company name and your company’s Hong Kong business registration number; and
  - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company’s name) in the appropriate box.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of CCASS Participant I.D. and/or company chop bearing its company name or other similar matters may render the application invalid.

(i) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked “For nominees” an identification number for each beneficial owner.

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

### 6. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not strictly follow the instructions, your application may be rejected.

If the Offer Price as finally determined is less than HK\$6.18 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful or partially successful applications, without interest. Details of the procedure for refunds are set out below in the paragraph headed “Refund of your money — additional information” in the section headed “Terms and conditions of the Public Offer and Preferential Offer” in this prospectus.

### 7. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.
- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.cass.com> (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for you if you go to:

Customer Service Centre of HKSCC at  
2nd Floor,  
Vicwood Plaza,  
199 Des Voeux Road Central,  
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Public Offer Shares.
- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Broker Participant or CCASS Custodian Participant to the Company and the Hong Kong share registrar.

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

- (e) you may give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Public Offer Shares must be in one of the multiples set out in the table in the Application Form.
- (f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:
  - (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and
  - (ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in sub-paragraph (d) in the paragraph headed “Effect of making any application” in the section headed “Terms and conditions of the Public Offer and Preferential Offer” in this prospectus.
- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.
- (h) For the purpose of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The paragraph headed “Personal data” in the section headed “Terms and conditions of the Public Offer and Preferential Offer” in this prospectus applies to any personal data held by the Joint Sponsors, the Company and the Hong Kong share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### Warning

**Application for Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. We, the Underwriters, the Joint Sponsors, their respective directors and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Public Offer Shares.**

**To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor**

## HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

**Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:**

- (a) submit the WHITE or YELLOW Application Form (as appropriate); or**
- (b) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Friday, 7 December 2007 or such later time as described under the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" above.**

### **8. RESULTS OF ALLOCATIONS**

Our Company expects to release and announce the Offer Price, level of indication of interest in the International Offer and basis of allotment under the Public Offer on 13 December 2007 in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), and on our website at [www.biobeautygroup.com](http://www.biobeautygroup.com) and the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk). The results of allocations of the Public Offer Shares under the Public Offer and the Reserved Shares under the Preferential Offer in respect of applications made under **WHITE, YELLOW, BLUE and PINK** Application Forms and by giving electronic application instructions to HKSCC, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Public Offer Shares (and Reserved Shares, in the case of the Preferential Offer) successfully applied for, will be made available at the times and dates and in the manner specified below:

- Results of allocations of the Public Offer and Preferential Offer can be found in the Company's announcement to be posted on our Company's website at [www.biobeautygroup.com](http://www.biobeautygroup.com) from 8:00 a.m. on 13 December 2007;
- Results of allocations of the Public Offer and Preferential Offer can be found in the Company's announcement to be posted on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) on 13 December 2007;
- Results of allocations of the Public Offer and Preferential Offer will be available from our designated results of allocations website at [www.tricor.com.hk/ipo](http://www.tricor.com.hk/ipo) on a 24-hour basis from 8:00 a.m. on 13 December 2007 to 12:00 midnight on 19 December 2007. The user will be required to key in the Hong Kong Identity Card/passport/Hong Kong business registration number provided in his/her/its application form to search for his/her/its own allocation result;
- Results of allocations of the Public Offer and Preferential Offer will be available from the Global Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Offer Shares allocated to them, if any, by calling 2980 1833 between 9:00 a.m. and 6:00 p.m. from 13 December 2007 to 15 December 2007 and 17 December 2007; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from 13 December 2007 to 15 December 2007 at all receiving bank branches and sub-branches at the addresses set out in the section headed "— 3. Where to Collect The Application Forms".

## TERMS AND CONDITIONS OF THE PUBLIC OFFER AND PREFERENTIAL OFFER

### 1. GENERAL

- (a) If you apply for the Public Offer Shares in the Public Offer (including the Reserved Shares in the Preferential Offer), you will be agreeing with us and the Global Coordinator (on behalf of the Hong Kong Underwriters) as set out below.
- (b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Public Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (d) Applicants should read this prospectus carefully, including other terms and conditions of the Public Offer, the paragraphs headed “The Public Offer” and “The Preferential Offer” in the section headed “Structure of the Global Offering” in this prospectus, and in the section headed “How to Apply for the Public Offer Shares and Reserved Shares” in this prospectus and the terms and conditions set out in the relevant Application Form or imposed by HKSCC (as the case may be) prior to making an application.

### 2. OFFER TO SUBSCRIBE THE PUBLIC OFFER SHARES

- (a) You offer to subscribe from us at the Offer Price the number of the Public Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Public Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form.

Details of the procedure for refunds relating to each of the Public Offer methods are contained below in the paragraphs headed “If your application for the Public Offer Shares or the Reserved Shares is successful (in whole or in part)” and “Refund of your money — additional information” in this section.

## TERMS AND CONDITIONS OF THE PUBLIC OFFER AND PREFERENTIAL OFFER

- (c) Any application may be rejected in whole or in part.
- (d) Applicants under the Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

### 3. ACCEPTANCE OF YOUR OFFER

- (a) The Public Offer Shares will be allocated after the application lists close. We expect to announce the final number of Public Offer Shares, the level of applications under the Public Offer and the basis of allocations of the Public Offer Shares in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), and on our website at [www.biobeautygroup.com](http://www.biobeautygroup.com) on Thursday, 13 December 2007.
- (b) The results of allocations of the Public Offer Shares under the Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Public Offer Shares successfully applied for, will be made available on Thursday, 13 December 2007, in the manner described in the paragraph headed “Results of allocations” in the section headed “How to apply for Public Offer Shares and Reserved Shares” in this prospectus.
- (c) We may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

## TERMS AND CONDITIONS OF THE PUBLIC OFFER AND PREFERENTIAL OFFER

### 4. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Public Offer Shares only if:

- You are a **nominee**, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

— an account number; or

— another identification number

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

If you are a Qualifying GGT Shareholder applying for Reserved Shares under the Preferential Offer on a **BLUE** Application Form, as beneficial owner, you may also make one application for Offer Shares either on a **WHITE** or **YELLOW** Application Form or electronically through CCASS (if you are a CCASS Investor Participant or act through a CCASS Broker or Custodian Participant). All of your applications for Reserved Shares will be rejected as multiple applications if you make more than one application on a **BLUE** Application Form.

If you are an Eligible Employee, and apply on a **PINK** Application Form, you may also apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form or by giving, or instructing your broker or custodian (who is a CCASS Broker/Custodian Participant) to give, **electronic application instructions** to HKSCC.

Otherwise, multiple applications are liable to be rejected.

(b) **All** of your applications under the Public Offer are liable to be rejected as multiple applications if you, or you and other joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC;
- make more than one application on a **PINK** Application Form;

## TERMS AND CONDITIONS OF THE PUBLIC OFFER AND PREFERENTIAL OFFER

- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving electronic application instructions to HKSCC to apply for more than 17,550,000 Shares, being 50% of the Public Offer Shares initially available for subscription under the Public Offer (excluding the Public Offer Shares initially available to Eligible Employees);
  - apply on a **PINK** Application Form when you have applied on a **BLUE** Application Form;
  - apply on a **BLUE** Application Form when you have applied on a **PINK** Application Form;
  - apply on one **PINK** Application Form for more than 100% of the Public Offer Shares being offered to Eligible Employees on a preferential basis;
  - receive any International Offer Shares under the International Offer (excluding the Reserved Shares available for subscription by Qualifying GGT Shareholder under **BLUE** Application Form).
- (c) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (or you and your joint applicant's benefit). If an application is made by an unlisted company and
- the principal business of that company is dealing in securities; and
  - you exercise statutory control over that company,

then the application will be deemed to be made for your benefit.

*Unlisted company* means a company with no equity securities listed on the Stock Exchange.

*Statutory control* means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 5. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- **instruct** and **authorise** any one of us or the Global Coordinator (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your



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behalf and to do on your behalf all other things necessary to effect the registration of any Public Offer Shares (including any Reserved Shares) allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;

- **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares (including the Reserved Shares) allocated to you, and as required by the Articles;
- **represent** and **warrant** that you understand that the Public Offer Shares (including the Reserved Shares) have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the Application Form (as defined in Regulation S) and are not a U.S. person described under the U.S. Securities Act;
- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning us and you agree that neither we, the Global Coordinator and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit (whether on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS) unless you are an Eligible Employee or a Qualifying GGT Shareholder, in which case you may also apply using a **PINK** or **BLUE** Application Form;
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC, and that you are duly authorised to sign the Application Form or to give **electronic application instructions** as that other person's agent;
- **agree** that once your application is accepted, your application will be evidenced by the results of the Public Offer or the Preferential Offer made available by us;

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- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Offer, nor otherwise participate in the International Offer;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to us, the Global Coordinator and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the Public Offer Shares or the Reserved Shares applied for, or any lesser number allocated to you under the application;
- **authorise** us to place your name(s) or the name of HKSCC Nominees, as the case may be, on our register of members as the holder(s) of any Public Offer Shares or Reserved Shares allocated to you, and we and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except that you have applied for 1,000,000 or more Public Offer Shares and if you have indicated in your Application Form, you can collect your share certificate(s) and/or refund cheque (where applicable) in person between 9:00 a.m. and 1:00 p.m. on 13 December 2007 (Hong Kong time) from the Hong Kong share registrar or any other date notified by us in the newspapers as the date of despatch of share certificates and refund cheques;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of us, the Global Coordinator and the Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- **agree** with us, for ourselves and for the benefit of each of our shareholder (and so that we will be deemed by our acceptance in whole or in part of the application to have agreed, for ourselves and on behalf of each of our shareholder) to observe and comply with the Companies Ordinance and the Articles;
- **confirm** that you are aware of the restrictions on offering of the Public Offer Shares or the Reserved Shares described in this prospectus; and

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- **understand** that these declarations and representations will be relied upon by us and the Global Coordinator in deciding whether or not to allocate any Public Offer Shares in response to your application.
- (b) If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you **agree** that
- any Public Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
  - each of HKSCC and HKSCC Nominees reserves the right (1) **not to accept** any or part of such allotted Public Offer Shares issued in the name of HKSCC Nominees or **not to accept** such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Public Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to **post the share certificates** for such allotted Public Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
  - each of HKSCC and HKSCC Nominees may adjust the number of allotted Public Offer Shares issued in the name of HKSCC Nominees;
  - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Forms;
  - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) If you apply for the Reserved Shares using a **BLUE** Application Form, in addition to the confirmations and agreements referred to in (a) above you **warrant** that in making an application, you or any person(s) for whose behalf you may be acting is/are Qualifying GGT Shareholder(s).
- (d) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to us nor any other person in respect of such things:
- **instruct** and **authorise** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;

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- **instruct** and **authorise** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK\$6.18 per Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;
- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf the following:
  - **agree** that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;
  - **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
  - (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) **declare** that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;
  - **understand** that the above declaration will be relied upon by us and the Global Coordinator in deciding whether or not to make any allocation of the Public Offer Shares in respect of the electronic application instructions given by you and that you may be prosecuted if you make a false declaration;
  - **authorise** us to place the name of HKSCC Nominees on our register of members as the holder of the Public Offer Shares allocated in respect of your **electronic application instructions** and to send share certificates and/or refund in accordance with arrangements separately agreed between us and HKSCC;
  - **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - **confirm** that you have only relied on the information and representations in this prospectus in giving your electronic application instructions or instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions on your behalf;
  - **agree** that we, the Global Coordinator and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus;

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- **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** to disclose your personal data to us, the Global Coordinator, the Underwriters, the Hong Kong share registrar, the receiving banker(s), their respective agents and advisers together with any information about you which they require;
- **agree** that any applications made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day), such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any public offer shares to any person before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Public Offer made available by us; and
- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Public Offer Shares.

### 6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES OR RESERVED SHARES

You should note the following situations in which Public Offer Shares or Reserved Shares will not be allocated to you or your application is liable to be rejected:

(a) **If your application is revoked:**

By completing and submitting an Application Form or submitting electronic application instructions to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day). This agreement will take effect as a collateral contract with the Company, and will become binding

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when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application has been accepted or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(b) If the allocation of Public Offer Shares or Reserved Shares is void:**

The allocation of Public Offer Shares to you or HKSCC Nominees (if you give **electronic application instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the listing committee of the Stock Exchange notifies us of that longer period within three weeks of the closing of the application lists.

**(c) If you make applications under the Public Offer as well as the International Offer:**

By filling in any of the Application Forms or giving application instructions to HKSCC electronically, you agree not to apply for International Offer Shares under the International Offer. Reasonable steps will be taken to identify and reject applications under the Public Offer from investors who have received International Offer Shares in the International Offer, and to identify and reject indications of interest in the International Offer from investors who have received Public Offer Shares in the Public Offer.

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**(d) If we, the Global Coordinator or their respective agents exercise their discretion:**

We, the Global Coordinator or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

**(e) If:**

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive International Offer Shares under the International Offer;
- if you apply for more than 50% of the Public Offer Shares initially being offered to the public for subscription under the Public Offer (excluding the Public Offer Shares initially available to Eligible Employees);
- we are of the view that by accepting your application, it would violate applicable securities laws, rules or regulations or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed; or
- Hong Kong Underwriting Agreement does not become unconditional or it is terminated in accordance with its terms.

**7. IF YOUR APPLICATION FOR THE PUBLIC OFFER SHARES OR THE RESERVED SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)**

**(a) If you are applying using a WHITE or BLUE Application Form and you elect to receive any share certificate(s) in your name:**

- Share certificates and (where applicable) refund cheques for these applicants are expected to be despatched on or before Thursday, 13 December 2007 at your own risk to the address on your Application Form by ordinary post.
- Applicants who apply for 1,000,000 Shares or more on **WHITE** Application Forms or apply for 1,000,000 Shares or more on **BLUE** Application Forms and have indicated in their Application Forms that they wish to collect share certificates and (where applicable) refund cheques in person from the Hong Kong share registrar may collect share certificates and (where applicable) refund cheques in person from the Hong Kong share registrar, Tricor Investor Services Limited, 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 13 December 2007.



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- Applications who apply for 1,000,000 Public Offer Shares or Reserved Shares or more on **WHITE** or **BLUE** application forms but have not indicated in their application forms that they wish to collect the share certificates and (where applicable) refund cheques in person, or applicants who apply for less than 1,000,000 Public Offer Shares or Reserved Shares, their share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses as specified in the relevant application forms on 13 December 2007.
- Applicants will receive one share certificate each for all the Public Offer Shares.
- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong share registrar.
- Uncollected share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms.

If you have applied for 1,000,000 Public Offer Shares or more and have not indicated on your application form that you will collect your share certificate(s) and/or refund cheque, if any, in person, or if you have applied for less than 1,000,000 Public Offer Shares, or if your application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Public Offer described under the section headed "Structure of the Global Offering — Conditions of the Public Offer" in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto has become void, then your share certificate(s) and/or refund cheque, if any, in respect of the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, if any, without interest, will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your application form on the date of despatch by ordinary post and at your own risk.

- (b) **If: (i) you are applying on a YELLOW Application Form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:**

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or electronically, as the case may be), at the close of business on Thursday, 13 December 2007 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.



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- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW Application Form:**

For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- **If you are applying as a CCASS Investor Participant on a YELLOW Application Form:**

We are expected to make available the results of the Public Offer, including the results of CCASS Investor Participants' applications, in the manner described in the section headed "How to Apply for Public Offer Shares and Reserved Shares — Results of allocations" in this prospectus, on Thursday, 13 December 2007. You should check the results made available by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 13 December 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- **If you have given electronic application instructions to HKSCC**

We are expected to make available the application results of the Public Offer, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, we shall include information relating to the beneficial owner), your Hong Kong identity card/ passport/Hong Kong business registration number or other identification code (Hong Kong Business Registration number for corporations as appropriate) in the manner described in the section headed "How to Apply for Public Offer Shares and Reserved Shares — Results of allocations" in this prospectus, on Thursday, 13 December 2007. You should check the results made available by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 13 December 2007 or any other date HKSCC or HKSCC Nominees chooses.

- **If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:**

You can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- **If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:**

You can also check the number of the Public Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants")

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in effect from time to time) on Thursday, 13 December 2007. Immediately following the credit of the Public Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

**No receipt will be issued for application monies paid. We will not issue temporary documents of title.**

### 8. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for our benefit) if:
- your application is not successful, in which case we will refund your application money together with the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;
  - your application is accepted only in part, in which case we will refund the appropriate portion of your application money, the brokerage, the SFC transaction levy and the Stock Exchange trading fee, without interest;
  - the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case we will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and
  - the conditions of Global Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering”.
- (b) If you apply on a **YELLOW** Application Form for 1,000,000 Public Offer Shares or more and have indicated in your **YELLOW** Application Form that you wish to collect your refund cheques in person from the Hong Kong share registrar, you may collect your refund cheque (if any) in person from the Hong Kong share registrar, Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong on Thursday, 13 December 2007. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** and **BLUE** Application Forms applicants set out in sub-paragraph (a) of the paragraph headed “If your application for the Public Offer Shares or the Reserved Shares is successful (in whole or in part)” in this section.

If you have applied for less than 1,000,000 Public Offer Shares, or if you have applied for 1,000,000 Public Offer Shares or more and have not indicated on your application form that you will collect your refund cheque, or if your application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Share (excluding related brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Public Offer described” in the section headed

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“Structure of the Global Offering — Conditions of the Public Offer” in this prospectus are not fulfilled in accordance with their terms, or if any application is revoked or any allotment pursuant thereto have become void, then your refund cheque (without interest), if any, will be sent to the address (or in the case of joint applicants, the address of the first-named applicant) on your application form on the date of despatch, which is expected to be 13 December 2007 by ordinary post and at your own risk.

- (c) If you apply on a **PINK** application form, you may collect your refund cheque (if any) in person from our Company Secretary, Mr. Ng Yuk Yeung, at our principal place of business in Hong Kong at 3301, 3401-06, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong by 5:00 p.m. on Thursday, 13 December 2007.
- (d) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Thursday, 13 December 2007.
- (e) All refunds by cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form.
- (f) Refund cheques are expected to be despatched on Thursday, 13 December 2007. We intend to make special efforts to avoid undue delays in refunding money.

### 9. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on 20 December 1996. This Personal Information Collection Statement informs the applicant for and holder of the Public Offer Shares or the Reserved Shares of our policies and practices and the Hong Kong share registrar in relation to personal data and the Ordinance.

#### (a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to us and the Hong Kong share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong share registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of us or the Hong Kong share registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares or the Reserved Shares which you have successfully applied for and/ or the despatch of share certificate(s), and/or refund cheque(s) to which you are entitled.

It is important that holders of securities inform us and the Hong Kong share registrar immediately of any inaccuracies in the personal data supplied.

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### (b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of our holders of securities;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of our holders of securities, such as dividends, rights issues and bonus issues;
- distributing communications from us and our subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong share registrar to discharge their obligations to holders of securities and/or regulators and/or any other purpose to which the holders of securities may from time to time agree.

### (c) Transfer of personal data

Personal data held by us and the Hong Kong share registrar relating to the applicants and the holders of securities will be kept confidential but we and the Hong Kong share registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- we or our appointed agents such as financial advisers and receiving bankers;

## TERMS AND CONDITIONS OF THE PUBLIC OFFER AND PREFERENTIAL OFFER

- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecoms, computer, payment or other services to us and/or the Hong Kong share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving electronic application instructions to HKSCC, you agree to all of the above.

### (d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether we and/or the Hong Kong share registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, we and the Hong Kong share registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to us for the attention of our Company Secretary or (as the case may be) the Hong Kong share registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

## 10. MISCELLANEOUS

### (a) Commencement of dealings in the Shares

- Dealings in the Shares on the Stock Exchange are expected to commence on Friday, 14 December 2007.
- The Shares will be traded in board lots of 1,000 Shares.
- Any Share certificates in respect of Public Offer Shares or the Reserved Shares collected or received by successful applicants will not be valid if the Global Offering is terminated in accordance with the terms of the Hong Kong Underwriting Agreement.

## TERMS AND CONDITIONS OF THE PUBLIC OFFER AND PREFERENTIAL OFFER

(b) **The Shares will be eligible for admission into CCASS**

- If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants to us:

**Deloitte.**  
**德勤**

德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

4 December 2007

The Directors  
Bio Beauty Group Ltd.  
Macquarie Securities Limited  
ICEA Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Bio Beauty Group Ltd. (the “Company”), its subsidiaries and the Cosmetics Business Branches (defined below, together with the Company and its subsidiaries hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 4 December 2007 (the “Prospectus”).

The Company, formerly known as Bio Beauty Group Inc., was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands on 7 June 2007. On 30 June 2007, through a group reorganisation as more fully explained in the paragraph headed “Corporate reorganisation” in Appendix VI to the Prospectus (the “Group Reorganisation”), Global Green Tech Group Limited, the ultimate holding company, transferred its entire equity interest in the companies comprising the Group to the Company and the Company became the holding company of the Group. The Group is engaged in the manufacturing and sales of skincare products and colour cosmetics (the “Cosmetics Business”).

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

<u>Name of company</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued and fully paid share capital/ registered capital</u>	<u>Attributable equity interest of the Group</u>	<u>Principal activity</u>
高寶化妝品(中國)有限公司 (“Cosmetics China”) <sup>#1</sup>	People’s Republic of China (the “PRC”) 1 April 2004	Registered capital — HK\$300,000,000	100%	Manufacturing and sales of skincare products and colour cosmetics
Global Chemical Investment Limited (“Global Chemical”) <sup>*1</sup>	British Virgin Islands (“BVI”) 9 August 1996	Shares — US\$100	100%	Investment holding

Name of company	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group	Principal activity
Global Cosmetics (France) S.A.R.L. ("GC France")	France 21 November 2001	Shares — EUR8,000	100%	Inactive
Global Cosmetics (HK) Company Limited 高寶化妝品(香港)有限公司 ("Cosmetics HK") <sup>#1</sup>	Hong Kong 6 August 2004	Shares — HK\$40,000,000	100%	Investment holding, trading of skincare products and colour cosmetics
Global Idea (Int'l) Co., Limited 高寶創意(國際)有限公司 ("Global Idea") <sup>1</sup>	Hong Kong 15 November 2004	Shares — HK\$1,000	100%	Trading of ODM and OEM skincare products and colour cosmetics
Global Kingdom International Limited ("Global Kingdom") <sup>1</sup>	BVI 3 January 2003	Shares — US\$1	100%	Investment holding
Global Marketing (Int'l) Co., Limited 高寶市場拓展(國際)有限公司 ("Global Marketing") <sup>1</sup>	Hong Kong 15 November 2004	Shares — HK\$1,000	100%	Inactive
Globe Wealthy Limited ("Globe Wealthy") <sup>1</sup>	BVI 28 November 2005	Shares — US\$1	100%	Inactive
High Billion Investment Limited 萬高投資有限公司 ("High Billion")	Hong Kong 13 October 2000	Shares — HK\$10,000	100%	Holding of licence

\* Directly held by the Company.

# The equity interests of these companies attributable to the Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 are 70%, 70%, 70% and 87%, respectively.

<sup>1</sup> Consolidated financial statements of Global Chemical have been prepared for the management purpose and the financial statements of these companies have been consolidated into the consolidated financial statements of Global Chemical.

The financial year-end date of the Company, its subsidiaries and the Cosmetics Business Branches (defined below) is 31 December.



We have acted as the auditor of the Company since its date of incorporation. No statutory audited financial statements have been prepared for the Company, Global Chemical, Global Kingdom, Globe Wealthy and the Cosmetics Business Branches (defined below) as they were incorporated/established in jurisdictions where there is no statutory audit requirement. The net sales, number of employees and net asset value of GC France for the Relevant Periods are below the threshold for statutory audit requirement in France and thus GC France is exempted from preparation of statutory audited financial statements for the Relevant Periods. For the purpose of this report, we have reviewed all the relevant transactions of these companies and branches since their respective dates of incorporation/establishment to the date of this report and carried out such audit procedures as we considered necessary for inclusion in the Financial Information relating to the Group.

The statutory financial statements of the following subsidiaries were prepared in accordance with relevant accounting principles and financial regulations applicable to their respective jurisdictions and were audited by us or the following certified public accountants registered in that jurisdiction:

<u>Name of subsidiary</u>	<u>Financial period</u>	<u>Name of auditor</u>
Cosmetics China	From 1 April 2004 (date of establishment) to 31 December 2004 and year ended 31 December 2005 Year ended 31 December 2006	東莞市華聯會計師事務所有限公司  廣州恒威會計師事務所有限公司
Cosmetics HK	From 6 August 2004 (date of incorporation) to 31 December 2005 Year ended 31 December 2006	CCIF CPA Limited  Deloitte Touche Tohmatsu
Global Idea	From 15 November 2004 (date of incorporation) to 31 December 2005 Year ended 31 December 2006	CCIF CPA Limited  Deloitte Touche Tohmatsu
Global Marketing	From 15 November 2004 (date of incorporation) to 31 December 2005 Year ended 31 December 2006	CCIF CPA Limited  Deloitte Touche Tohmatsu
High Billion	Each of the three years ended 31 December 2006	W.M. Wong & Co.

During the three years ended 31 December 2006, 東莞寶麗美化工有限公司 (Dongguan Proamine Chemical Co., Limited) (“Dongguan Proamine”), 東莞高寶化工有限公司 (Dongguan Gao Bao Chemical Company Limited) (“Gao Bao Chemical”) and Global Chemicals (China) Company Limited (“Global Chemicals (China)”), wholly-owned subsidiaries of Global Green Tech Group Limited, have branches (collectively the “Cosmetics Business Branches”) which were solely engaged in the Cosmetics Business (the “Branch Cosmetics Business”). Two subsidiaries of the Group, namely Cosmetics China and Cosmetics HK, which were also under the common control of Global Green Tech Group Limited throughout the Relevant Periods, have gradually taken up all of the Cosmetics Business from the Cosmetics Business Branches during the three years ended 31 December 2006 and, in January 2007, these Cosmetics Business Branches ceased the Cosmetics Business and the assets and the liabilities of these

Cosmetics Business Branches except for motor vehicle and plant and machinery have been retained by other branches of these companies which do not form part of the Group at their carrying values (the "Transfer"). The Financial Information, which is prepared to present the Cosmetics Business of the Group headed by Global Green Tech Group Limited during the Relevant Periods, comprises financial information for the Cosmetics Business carried out by companies comprising the Group and the Cosmetics Business carried out by the Cosmetics Business Branches prior to the Transfer. Financial statements of the Cosmetics Business Branches were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for each of the three years ended 31 December 2006 and were audited by CCIF CPA Limited, certified public accountants registered in Hong Kong.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Company for the six months ended 30 June 2007 in accordance with Hong Kong Financial Reporting Standards and such consolidated financial statements have been audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the audited financial statements or where necessary, the management accounts of the companies comprising the Group and the Cosmetics Business Branches, which were prepared in accordance with Hong Kong Financial Reporting Standards, for the Relevant Periods or since their respective dates of incorporation/establishment to 30 June 2007, where this is a shorter period (the "Underlying Financial Statements") in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional audit procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 of Section E, after making such adjustments as we consider appropriate for the purpose of preparing our report for the inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issues. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 of Section E, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 30 June 2007 and of the Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 and of the combined profits and cash flows of the Group for the Relevant Periods.

The comparative combined income statement, combined cash flow statement and combined statement of changes in equity of the Group for the six months ended 30 June 2006 together with the notes thereon have been extracted from the Group's combined financial information for the same period (the "30 June 2006 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2006 Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquires of group management and applying analytical procedures

to the 30 June 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2006 Financial Information.

#### A. COMBINED INCOME STATEMENTS

	<i>Section E</i>	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
		<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2007</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(unaudited)</i>	
Turnover	4	183,494	351,965	409,479	189,073	256,898
Cost of goods sold		(61,193)	(154,382)	(151,350)	(69,593)	(56,239)
Gross profit		122,301	197,583	258,129	119,480	200,659
Other income		4,969	3,135	4,426	1,017	1,640
Selling and distribution expenses		(36,859)	(49,759)	(34,940)	(8,861)	(21,410)
Administrative expenses		(23,754)	(35,481)	(55,135)	(19,646)	(45,967)
Finance costs		—	(5)	(24)	(8)	(31)
Profit before taxation	6	66,657	115,473	172,456	91,982	134,891
Taxation	8	(22,324)	(14,008)	(30,540)	(13,561)	(21,102)
Profit for the year/period		<u>44,333</u>	<u>101,465</u>	<u>141,916</u>	<u>78,421</u>	<u>113,789</u>
Attributable to:						
Equity holders of the Company		37,339	78,716	92,366	49,835	87,794
Minority interests		6,994	22,749	49,550	28,586	25,995
		<u>44,333</u>	<u>101,465</u>	<u>141,916</u>	<u>78,421</u>	<u>113,789</u>
Dividends	9					
Equity holders of the Company		—	—	135,000	—	—
Minority interests		—	—	75,000	—	—
		<u>—</u>	<u>—</u>	<u>210,000</u>	<u>—</u>	<u>—</u>
Earnings per share — Basic	10	<u>4.22 HK cents</u>	<u>8.89 HK cents</u>	<u>10.43 HK cents</u>	<u>5.63 HK cents</u>	<u>9.91 HK cents</u>

## B. BALANCE SHEETS

	<i>Section E</i>	THE GROUP			THE COMPANY	
		At 31 December			At	At
		2004	2005	2006	30 June	30 June
		<i>Notes</i>	HK\$'000	HK\$'000	2007	2007
				HK\$'000	HK\$'000	
Non-current assets						
Property, plant and equipment	11	66,484	139,921	415,527	505,304	—
Land use rights	12	—	119,205	121,443	122,718	—
Intangible assets	13	7,788	2,596	—	—	—
Investment in subsidiaries		—	—	—	—	116,218
Goodwill	14	—	—	—	222,963	—
Deposit made on acquisition of property, plant and equipment	11	—	10,485	34,911	123	—
Deposit made on acquisition of land use rights	12	111,120	—	—	—	—
		<u>185,392</u>	<u>272,207</u>	<u>571,881</u>	<u>851,108</u>	<u>116,218</u>
Current assets						
Inventories	15	13,185	10,429	10,539	27,473	—
Trade and other receivables	16	130,832	56,617	51,535	20,836	—
Amounts due from fellow subsidiaries	19	—	70	5,687	7,686	—
Amount due from ultimate holding company	19	14,770	—	—	—	—
Bank balances and cash	17	<u>13,732</u>	<u>11,689</u>	<u>118,289</u>	<u>36,881</u>	<u>—</u>
		<u>172,519</u>	<u>78,805</u>	<u>186,050</u>	<u>92,876</u>	<u>—</u>

	<i>Section E</i>	THE GROUP			THE COMPANY	
		At 31 December			At	At
		2004	2005	2006	30 June	30 June
		<i>Notes</i>	2004	2005	2006	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities						
Trade and other payables	18	21,001	20,734	121,438	107,303	—
Amounts due to fellow subsidiaries	19	20,661	56,954	345,930	192,700	—
Amount due to immediate holding company	19	63,983	63,983	170,983	384,969	—
Amount due to ultimate holding company	19	—	2,829	28,632	67,895	—
Taxation payable		—	—	10,591	15,748	—
		<u>105,645</u>	<u>144,500</u>	<u>677,574</u>	<u>768,615</u>	<u>—</u>
Net current assets (liabilities)		<u>66,874</u>	<u>(65,695)</u>	<u>(491,524)</u>	<u>(675,739)</u>	<u>—</u>
Net assets		<u>252,266</u>	<u>206,512</u>	<u>80,357</u>	<u>175,369</u>	<u>116,218</u>
Capital and reserves						
Paid-in capital	20	65	65	65	9,085	9,085
Reserves	21	<u>245,207</u>	<u>176,070</u>	<u>61,209</u>	<u>138,829</u>	<u>107,133</u>
Equity attributable to equity holders of the Company		245,272	176,135	61,274	147,914	116,218
Minority interests		<u>6,994</u>	<u>30,377</u>	<u>19,083</u>	<u>27,455</u>	<u>—</u>
Total equity		<u>252,266</u>	<u>206,512</u>	<u>80,357</u>	<u>175,369</u>	<u>116,218</u>

## C. COMBINED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Total
	Share capital	Special reserve	Translation reserve	Other reserve	Accumulated	Sub-total	Minority interests	
					(losses) profits			
HK\$'000	HK\$'000 (note 21)	HK\$'000	HK\$'000 (note 21)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2004	65	128,160	—	—	(7,496)	120,729	—	120,729
Profit for the year and total income recognised for the year	—	—	—	—	37,339	37,339	6,994	44,333
Recognition of share-based payment	—	—	—	7,848	—	7,848	—	7,848
Net contributions from the controlling equity holder in respect of the Cosmetics Business Branches (note a)	—	117,683	—	—	(38,327)	79,356	—	79,356
At 31 December 2004	65	245,843	—	7,848	(8,484)	245,272	6,994	252,266
Profit for the year	—	—	—	—	78,716	78,716	22,749	101,465
Exchange difference on translation of foreign operations recognised directly in equity	—	—	1,481	—	—	1,481	634	2,115
Total income recognised for the year	—	—	1,481	—	78,716	80,197	23,383	103,580
Net return of contributions to the controlling equity holder in respect of the Cosmetics Business Branches (note b)	—	(97,991)	—	—	(51,343)	(149,334)	—	(149,334)
At 31 December 2005	65	147,852	1,481	7,848	18,889	176,135	30,377	206,512
Profit for the year	—	—	—	—	92,366	92,366	49,550	141,916
Exchange difference on translation of foreign operations recognised directly in equity	—	—	5,030	—	—	5,030	2,156	7,186

	Attributable to equity holders of the Company							Total
	Share capital	Special reserve	Translation reserve	Other reserve	Accumulated	Sub-total	Minority interests	
					(losses) profits			
HK\$'000	HK\$'000 (note 21)	HK\$'000	HK\$'000 (note 21)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Total income recognised for the year	—	—	5,030	—	92,366	97,396	51,706	149,102
Capital contribution by a minority shareholder of a subsidiary	—	—	—	—	—	—	12,000	12,000
Dividends paid	—	—	—	—	(135,000)	(135,000)	—	(135,000)
Dividends paid to minority shareholder	—	—	—	—	—	—	(75,000)	(75,000)
Net return of contributions to the controlling equity holder in respect of the Cosmetics Business Branches (note b)	—	(86,686)	—	—	9,429	(77,257)	—	(77,257)
At 31 December 2006	65	61,166	6,511	7,848	(14,316)	61,274	19,083	80,357
Profit for the period	—	—	—	—	87,794	87,794	25,995	113,789
Exchange difference on translation of foreign operations recognised directly in equity	—	—	3,758	—	—	3,758	504	4,262
Total income recognised for the period	—	—	3,758	—	87,794	91,552	26,499	118,051
Arising on acquisition of additional interest of a subsidiary	—	—	—	—	—	—	(18,127)	(18,127)
Deemed transfer of net assets of Cosmetics Business Branches to fellow subsidiaries (note c)	—	(4,858)	—	—	—	(4,858)	—	(4,858)
Reclassification of loss attributable to depreciation of motor vehicle and plant and machinery of Cosmetics Business Branches	—	(4,645)	—	—	4,645	—	—	—
Arising on group reorganisation	9,020	(9,074)	—	—	—	(54)	—	(54)

	Attributable to equity holders of the Company							Total
	Share capital	Special reserve	Translation reserve	Other reserve	Accumulated	Sub-total	Minority interests	
					(losses) profits			
HK\$'000	HK\$'000 (note 21)	HK\$'000	HK\$'000 (note 21)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 30 June 2007	<u>9,085</u>	<u>42,589</u>	<u>10,269</u>	<u>7,848</u>	<u>78,123</u>	<u>147,914</u>	<u>27,455</u>	<u>175,369</u>
At 1 January 2006	<u>65</u>	<u>147,852</u>	<u>1,481</u>	<u>7,848</u>	<u>18,889</u>	<u>176,135</u>	<u>30,377</u>	<u>206,512</u>
Profit for the period and total income recognised for the period	—	—	—	—	49,835	49,835	28,586	78,421
Capital contribution by a minority shareholder	—	—	—	—	—	—	4,500	4,500
Net return of contributions to the controlling equity holder in respect of the Cosmetics Business Branches (note b)	—	(83,737)	—	—	4,533	(79,204)	—	(79,204)
At 30 June 2006	<u>65</u>	<u>64,115</u>	<u>1,481</u>	<u>7,848</u>	<u>73,257</u>	<u>146,766</u>	<u>63,463</u>	<u>210,229</u>

Note:

- (a) "Net contributions from the controlling equity holder in respect of the Cosmetics Business Branches" represents the net amount received by the Group from the companies holding the Cosmetics Business Branches after taking into account of the results from the Cosmetics Business Branches.
- (b) "Net return of contributions to the controlling equity holder in respect of the Cosmetics Business Branches" represents the net amount paid by the Group to the companies holding the Cosmetics Business Branches after taking into account of the results from the Cosmetics Business Branches.
- (c) "Deemed transfer of net assets of Cosmetics Business Branches to fellow subsidiaries" represented all assets and liabilities of the Cosmetics Business Branches except for motor vehicles and plant and machinery at carrying value in January 2007 which were retained by the companies holding the Cosmetics Business Branches.



## D. COMBINED CASH FLOW STATEMENTS

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Cash flows from operating activities					
Profit before taxation	66,657	115,473	172,456	91,982	134,891
Adjustments for:					
Interest income	(55)	(573)	(1,061)	(68)	(128)
Interest expenses	—	5	24	8	31
Depreciation of property, plant and equipment	11,754	11,976	20,241	8,307	15,682
Gain on disposal of property, plant and equipment	(82)	—	—	—	—
Allowance for doubtful debts	—	6,000	—	—	—
Allowance for inventories	1,924	5,301	—	—	—
Amortisation of intangible assets	5,192	5,192	2,596	2,596	—
Operating lease rentals in respect of land use rights	—	2,433	2,530	1,216	1,292
Reversal of allowance for inventories	—	(53)	—	—	—
Bad debts written off	—	—	—	—	1,952
Write-down of inventories	—	—	35,543	26,355	—
Share-based payment (note 28)	7,848	13,461	8,034	4,017	4,460
Other non-cash operating items of Cosmetics Business Branches	(80,913)	(74,933)	—	—	—
Operating cash flows before movements in working capital	12,325	84,282	240,363	134,413	158,180
Increase in inventories	—	(15,677)	(36,575)	(61,107)	(16,746)
(Increase) decrease in trade and other receivables	(33,265)	6,723	(28,238)	6,506	27,773
Increase (decrease) in amounts due to fellow subsidiaries	—	—	1,979	(8)	42
Increase (decrease) in trade and other payables	17,762	11,188	46,177	35,645	(26,797)
Cash (used in) from operations	(3,178)	86,516	223,706	115,449	142,452
Taxation paid	—	—	(19,949)	(13,561)	(16,169)
Net cash (used in) generated from operating activities	(3,178)	86,516	203,757	101,888	126,283

## APPENDIX I

## ACCOUNTANTS' REPORT

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i>
Cash flows from investing activities					
Interest received	55	573	1,061	68	128
Advance to a fellow subsidiary	—	—	(5,617)	—	(1,999)
Purchase of property, plant and equipment	(5,441)	(86,426)	(223,494)	(74,875)	(58,688)
Purchase of land use rights	—	(10,518)	—	—	—
Payment for deposit made on acquisition of property, plant and equipment	—	(10,485)	(34,911)	—	(123)
Payment for deposit made on acquisition of land use rights	(111,120)	—	—	—	—
Net cash used in investing activities	(116,506)	(106,856)	(262,961)	(74,807)	(60,682)
Cash flows from financing activities					
Interest paid	—	(5)	(24)	(8)	(31)
Dividends paid to a minority shareholder	—	—	(75,000)	—	—
Advances from (repayment to) fellow subsidiaries	88,454	13,854	238,956	(38,789)	(155,408)
Advances from (repayment to) immediate holding company	60,002	—	(28,000)	—	(27,104)
(Repayment to) advance from ultimate holding company	(15,156)	4,138	17,769	19,795	34,749
Capital contributed by a minority shareholder of a subsidiary	—	—	12,000	4,500	—
Net cash generated from (used in) financing activities	133,300	17,987	165,701	(14,502)	(147,794)
Net increase (decrease) in cash and cash equivalents	13,616	(2,353)	106,497	12,579	(82,193)
Cash and cash equivalents at 1 January	116	13,732	11,689	11,689	118,289
Effect of foreign exchange rate changes	—	310	103	—	785
Cash and cash equivalents at the end of the year/period	<u>13,732</u>	<u>11,689</u>	<u>118,289</u>	<u>24,268</u>	<u>36,881</u>
Analysis of the balances of cash and cash equivalents					
Bank balances and cash	<u>13,732</u>	<u>11,689</u>	<u>118,289</u>	<u>24,268</u>	<u>36,881</u>

**E. NOTES TO THE FINANCIAL INFORMATION****1. Basis of presentation of financial information**

The combined income statements and the combined cash flow statements which include the results and cash flows of the companies now comprising the Group and of the Branch Cosmetics Business have been prepared by applying the principles of merger accounting which is consistent with the principle as stated in Accounting Guideline 5 "Merger accounting under common control combination" issued by the HKICPA, as if the current group structure had been in existence throughout the Relevant Periods or since their respective dates of incorporation/establishment, where this is a shorter period. The combined balance sheets of the Group as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 have been prepared to present the assets and liabilities of the companies now comprising the Group and the Branch Cosmetics Business as if the current group structure had been in existence as at that date.

Although the Branch Cosmetics Business was not formally transferred to the Group, it has been included in the Financial Information for the Relevant Periods as the directors of the Company consider that the historical financial information of the Group should include all relevant activities that have been a part of the history of the Cosmetics Business of the group headed by Global Green Tech Group Limited. Accordingly the Financial Information should reflect all of the Group's activities in doing Cosmetics Business for the Relevant Periods, including expenses incurred by Global Green Tech Group Limited on the Branch Cosmetics Business, if any.

The Financial Information was prepared based on audited financial statements and management accounts of companies now comprising the Group and financial statements of Cosmetics Business Branches which were prepared based on the items of assets, liabilities, income and expenses that can be (i) specifically identified to the Branch Cosmetics Business or (ii) allocated to the Branch Cosmetics Business on the basis discussed below (such items include administrative expenses and income tax). Items that do not meet the criteria set out in (i) and (ii) above are not combined into the Financial Information of the Group.

Expenses that are relevant to the Branch Cosmetics Business and impracticable to identify specifically are determined on the following basis: (1) administrative expenses (which were incurred for all the operations of those fellow subsidiaries holding the Cosmetics Business Branches and therefore impracticable to identify specifically) were allocated in accordance with percentage of headcounts as certain headcounts are relevant to the Branch Cosmetics Business; (2) income tax expenses were calculated based on the tax rate of Branch Cosmetics Business as if they are separate tax reporting entity. The directors of the Company believe that the method of allocation of the above items presents a reasonable basis of estimating what the Cosmetics Business operating results would have been on a stand-alone basis for the Relevant Periods. Other than the administrative expenses and income tax expenses mentioned above, all other items of the balance sheets and income statements of the Cosmetics Business Branches are specifically identified.

The treasury and cash disbursement functions of the Cosmetics Business Branches are centrally administrated by the respective fellow subsidiaries. All the transactions within the Cosmetics Business Branches are handled by the fellow subsidiaries centrally and therefore shown as movements in the special reserve as net contributions from or net return of contributions to the controlling equity holder in respect of the Cosmetics Business Branches.

The Cosmetics Business Branches ceased business in January 2007 and their relevant assets except for motor vehicle and plant and machinery were retained by fellow subsidiaries of the Group in January 2007. Motor vehicle and plant and machinery were legally transferred to the Group on 30 September 2007 as part of the Group's reorganisation exercise. As a result, those assets were treated as the Group's assets throughout the Relevant Periods and the consideration paid by the Group to the fellow subsidiaries for the transfer of these assets is treated as distribution to the controlling equity holder.

The immediate holding company of the Group is Global Success Properties Limited and the ultimate holding company is Global Green Tech Group Limited whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of the registered office of the Company and the principal place of business are disclosed in the paragraph headed "Corporate Information" to the Prospectus.

All significant intra-group transactions and balances have been eliminated on combination.

The functional currency of the Company is Renminbi ("RMB") while the combined financial information is presented in Hong Kong dollars, which the management of the Company considered is more beneficial for the user of the combined financial information.

## 2. Adoption of new and revised Hong Kong Financial Reporting Standards

The HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs") and interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or prior to 1 January 2007. For the purposes of preparing and presenting Financial Information, the Group has adopted all these new HKFRSs consistently throughout the Relevant Periods.

The HKICPA has issued the following new and revised standards and interpretations that have been issued but are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions <sup>2</sup>
HK(IFRIC) - INT 12	Service concession arrangements <sup>3</sup>
HK(IFRIC) - INT 13	Customer Loyalty Programmes <sup>4</sup>
HK(IFRIC) - INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008.

## 3. Significant accounting policies

The Financial Information has been prepared under the historical cost convention and in accordance with the accounting policies set out below which conform with HKFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

### *Basis of consolidation*

The Financial Information incorporates the financial information of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year/period are included in the combined income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries and the Cosmetics Business Branches to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

***Business combination under common control***

Business combinations under common control are accounted for using merger accounting. In applying merger accounting, the combined financial information incorporates the financial information of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

***Acquisition of additional interest in subsidiaries and resulting goodwill***

Goodwill arising on acquisition of additional interest in subsidiaries represents the excess of the cost of the acquisition over the carrying value of the underlying assets and liabilities attributable to the additional interests in subsidiaries.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and service provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods, regardless of whether sales were made to distributors or made directly to original design manufacturing (“ODM”) and original equipment manufacturing (“OEM”) customers, are recognised when goods are delivered and title has passed.

Royalty income is recognised on an accrued basis in accordance with the substance of the relevant agreements.

Service income is recognised when the services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

***Property, plant and equipment***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment loss at the balance sheet date.

The cost of buildings is depreciated over the shorter of the unexpired lease term of the land which the buildings are located or their estimated useful lives of 50 years after the date of completion.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects. They are not depreciated until completion of construction and the asset is ready for their intended use. Cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, after taking into account of their estimated residual values, using the straight line method, at the following rates per annum:

Plant and machinery	5% - 20%
Furniture, fixtures and equipment	5% - 40%
Motor vehicles	20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected to arise from the continue use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined income statement in the period in which the item is derecognised.

***Land use rights***

Payment for obtaining land use right is considered as operating lease payment and charged to the combined income statement over the period of the land use right using the straight-line method.

***Intangible assets******Licence***

Licence is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over its estimated useful life.

*Research and development expenditures*

Expenditure on research activities is recognised as an expense in the period in which it incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

*Impairment*

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible assets below).

*Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

*Impairment of tangible assets*

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

#### *Financial instruments*

Financial assets and financial liabilities are recognised on the combined balance sheet when the Group has become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are measured initially at fair value.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from fellow subsidiaries, amount due from ultimate holding company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liability and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### *Trade and other payables and amounts due to fellow subsidiaries/immediate holding company/ultimate holding company*

Trade and other payables and amounts due to fellow subsidiaries/immediate holding company/ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

#### *Equity instruments*

Equity instruments issued by the Group are recorded as the proceeds received, net of direct issued costs.

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.



*Equity-settled share-based payment transactions*

The fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period and charged to the staff costs.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss over the remaining vesting period.

Share options issued to suppliers/customers in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. If the fair values of the goods or services cannot be estimated reliably, the fair values will be measured with reference to the fair value of the equity instrument granted. Corresponding expenses of share options issued to suppliers/customers are recognised in the cost of sales and selling and distribution expenses respectively.

*Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the combined income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the combined income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

*Foreign currencies*

The individual financial information of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Financial Information, the results and financial position of each entity are expressed in Hong Kong dollars ("HK\$"), which is the presentation currency for the Financial Information.

In preparing the financial information of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group stated at functional currency (i.e. RMB) are translated into the presentation currency of the Group (i.e. HK\$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

#### *Retirement benefit costs*

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

#### *Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in the combined income statements on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

#### *The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant leases.

#### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### 4. **Turnover**

Turnover represents the net amounts received and receivable for goods sold and service provided in the normal course of business, net of discounts and sales related taxes, for the Relevant Periods.

#### 5. **Business and geographical segments**

##### *Business segments*

No business segment analysis is shown as the Group's principal activities is the manufacture and sales of cosmetics and skin care products.

*Geographical segments*

The analysis of the Group's revenue by geographical market for each of the Relevant Periods is as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Mainland China	169,928	334,795	350,839	176,183	241,762
Hong Kong	12,491	7,880	6,893	1,742	2,119
Macau	1,075	988	892	463	444
United Kingdom, United States and others (note)	—	8,302	50,855	10,685	12,573
	<u>183,494</u>	<u>351,965</u>	<u>409,479</u>	<u>189,073</u>	<u>256,898</u>

*Note:* The amounts represent the Group's revenue generated from ODM and OEM customers. Others included Australia, Spain, Italy, France and Austria.

An analysis of segment assets and capital additions by geographical area in which the assets are located has not been presented as the Group's assets are substantially located in the PRC.

## 6. Profit before taxation

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit before taxation has been arrived at after charging:					
Directors' remuneration ( <i>note 7</i> )	2,122	2,344	3,810	1,935	1,934
Other staff's retirement benefits scheme contributions	164	282	383	121	185
Share-based payment for staff, excluding directors	1,136	2,223	3,004	1,502	1,667
Other staff costs	9,920	12,236	21,476	6,582	10,214
	13,342	17,085	28,673	10,140	14,000
Less: Staff costs included in research and development costs	(1,523)	(1,021)	(1,546)	(588)	(753)
	11,819	16,064	27,127	9,552	13,247
Allowance for doubtful debts	—	6,000	—	—	—
Allowance for inventories	1,924	5,301	—	—	—
Amortisation of intangible assets	5,192	5,192	2,596	2,596	—
Auditor's remuneration	700	1,125	1,500	750	1,013
Bad debt written off	—	—	—	—	1,952
Depreciation of property, plant and equipment	11,754	11,976	20,241	8,307	15,682
Exchange loss, net	605	49	—	83	—
Interest expenses on borrowings wholly repayable within five years	—	5	24	8	31
Operating lease rentals in respect of					
— land use rights	—	2,433	2,530	1,216	1,292
— rented premises	5,796	4,087	5,763	2,203	2,551
Research and development costs	3,473	1,092	6,544	618	851
Write-down of inventories included in cost of goods sold ( <i>note</i> )	—	—	35,543	26,355	—
and after crediting:					
Exchange gain, net	—	—	1,230	—	141
Gain on disposal of property, plant and equipment	82	—	—	—	—
Interest income	55	573	1,061	68	128
Reversal of allowance for inventories	—	53	—	—	—
Royalty income	2,755	1,706	446	446	—

*Note:* The write-down of inventories arose from the changes in marketing strategy and product formulation.

## 7. Directors' and employees' emoluments

The emoluments of the seven directors during the Relevant Periods are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Directors' fees	—	—	—	—	—
Other emoluments for executive directors					
— share-based payments	418	640	606	303	337
— retirement benefits scheme contributions	24	24	24	12	12
— other emoluments	1,680	1,680	3,180	1,620	1,585
	<u>2,122</u>	<u>2,344</u>	<u>3,810</u>	<u>1,935</u>	<u>1,934</u>

The directors' emoluments were within the following bands:

Below HK\$1,000,000	7	6	6	6	6
HK\$1,000,001 to HK\$1,500,000	—	—	—	1	—
HK\$1,500,001 to HK\$2,000,000	—	1	—	—	1
HK\$2,500,001 to HK\$3,000,000	—	—	1	—	—
	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>

The five highest paid individuals included two directors during the Relevant Periods, details of whose emoluments are set out above. The emoluments of the remaining three highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Employees					
— basic salaries and allowances	1,783	1,487	1,893	837	1,065
— retirement benefits scheme contributions	32	36	36	18	18
— share-based payment	41	91	82	41	45
	<u>1,856</u>	<u>1,614</u>	<u>2,011</u>	<u>896</u>	<u>1,128</u>

The emoluments of each of the three highest paid individuals during the Relevant Periods are below HK\$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to the seven directors and the remaining three highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

## 8. Taxation

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i>
Hong Kong Profits Tax	—	—	—	—	—
PRC income tax	22,324	14,008	30,540	13,561	21,102
	<u>22,324</u>	<u>14,008</u>	<u>30,540</u>	<u>13,561</u>	<u>21,102</u>

No Hong Kong Profits Tax has been provided as the Group entities have either no assessable profits or incurred tax losses for each of the Relevant Periods.

PRC income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

On 16 March 2007, the Enterprise Income Tax Law (the “new EIT Law”) was passed at the Fifth session of the Tenth National People’s Congress of the PRC, the income tax rate for both domestic and foreign-investment enterprise will be unified at 25% effective from 1 January 2008. Enterprises that are currently entitled to exemption or reductions from the standard income tax rate for a fixed term (such as, tax holiday of 2 year income tax exemption, followed by 3-year half rate reduction) would continue to enjoy such treatment until the fixed terms expires, but not beyond 2012.

Income tax is calculated based on the tax rate of the Cosmetics Business Branches as if they were separate tax entities of respective locations they are operating for each of the three years ended 31 December 2006. For the six months ended 30 June 2007, since they ceased business in January 2007, their results except for the depreciation charge of the motor vehicle and plant and machinery of the Cosmetic Business Branches which were still retained by the Group during the period were not included in the combined income statements of the Group and no taxation related to such Cosmetics Business Branches is calculated thereafter.

The charge for the year/period is reconciled to profit before taxation as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit before taxation	<u>66,657</u>	<u>115,473</u>	<u>172,456</u>	<u>91,982</u>	<u>134,891</u>
Tax at the domestic income tax rate of 33% (note a)	21,997	38,106	56,911	30,354	44,514
Tax effect of income not taxable for tax purpose (note b)	—	—	(496)	—	—
Tax effect of expenses not deductible for tax purpose (note c)	8,149	12,190	20,585	5,381	8,412
Tax losses not recognised (note d)	2,866	7,733	4,694	326	4,960
Utilisation of tax losses previously not recognised (note e)	—	—	(823)	—	—
Tax effect of tax holiday and other preferential tax treatment (note f)	(10,688)	(43,137)	(50,109)	(22,948)	(36,837)
Other deferred tax not recognised	<u>—</u>	<u>(884)</u>	<u>(222)</u>	<u>448</u>	<u>53</u>
Tax charge for the year/period	<u>22,324</u>	<u>14,008</u>	<u>30,540</u>	<u>13,561</u>	<u>21,102</u>

*Note a:* The domestic income tax rate of 33% represents the PRC Enterprise Income Tax of which the Group's operations are substantially based.

*Note b:* The amount represents exchange gain arising from translation of monetary items not taxable for income tax purpose.

*Note c:* The amounts primarily represent the amortisation of intangible assets, share-based payment expenses, allowance for inventories and promotion and entertainment expenses not deductible for income tax purpose.

*Note d:* The amounts represent the tax losses not recognised by Cosmetics HK, Global Idea and Cosmetics China during the Relevant Periods.

*Note e:* The amount represents the utilisation of tax losses previously not recognised by Global Idea. Global Idea reported assessable profit during the year ended 31 December 2006.

*Note f:* PRC tax provision is required to be made in respect of Cosmetics China. In accordance with the relevant income tax rules and regulations of Dongguan Province, Cosmetics China is entitled to preferential tax treatment by reducing the Foreign Enterprise Income Tax ("FEIT") rate to 24%.

Pursuant to a letter of approval issued by the local tax authority on 8 April 2005, Cosmetics China was exempted from FEIT for the first two profitable years of its operations after offsetting prior years' losses and is entitled to a 50% reduction on the FEIT for the following three years. Cosmetics China began its first two profitable year in the year ended 31 December 2004, and is subject to PRC FEIT at a rate of 12% for each of the three years ended 31 December 2008.

On 30 May 2003, Dongguan Proamine was accredited by the Department of Science and Technology of Guangdong Province as a Hi-and-New Tech Enterprise (“*高新技術企業外商投資企業*”) of Guangdong Province. On 16 January 2004, Dongguan Proamine received a written confirmation from Dongguan Local Tax Bureau that it was entitled to a reduced income tax rate of 15% for the period from 1 January 2003 to 31 December 2005. Also, on 1 June 2005, Dongguan Proamine continued to be accredited as a Hi-and-New Tech Enterprise of Guangdong Province and the income tax rate remained as 15% for 2006.

Pursuant to a letter of approval issued by the local tax authority on 1 July 2005, Gao Bao Chemical was exempted from FEIT for the first two profitable years of its operations after offsetting prior years' losses and is entitled to a 50% reduction on the FEIT for the following three years. Gao Bao Chemical began its first profitable year in the year ended 31 December 2005 and obtained tax exemption for 2005 and 2006, and is entitled to a reduced income tax rate of 15% for 2007, 2008 and 2009. As Gao Bao Chemical did not form part of the Group since January 2007, the Group will not entitle the above mentioned reduced income tax rate of Gao Bao Chemical for the year 2007, 2008 and 2009.

Other than disclosed above, there were no other tax concessions granted to other group entities or Cosmetics Business Branches during the Relevant Periods.

The Group has tax losses amounting to approximately HK\$8,686,000, HK\$32,119,000, HK\$43,849,000 and HK\$40,843,000 at 31 December 2004, 2005, 2006 and 30 June 2007 respectively, which were mainly incurred by Cosmetics HK, Global Idea and Cosmetics China from the loss in their operations during the periods. Due to the unpredictability of the future profit streams, tax assets from those tax losses are not recognised. All tax losses can be carried forward indefinitely. The total unrecognised tax losses of the Cosmetics Business Branch of Global Chemicals (China) amounting to approximately HK\$18,037,000 as at 31 December 2006 was returned to the headquarters of Global Chemicals (China) in January 2007.

#### 9. Dividends

No dividend has been paid or declared by the Company since its date of incorporation. However, in respect of the Relevant Periods, the following dividends were paid by the subsidiaries to the shareholders of Global Chemical prior to the Group Reorganisation.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
Interim dividends paid to equity holders of the Company	—	—	135,000	—	—

#### 10. Earnings per share

The calculation of the basic earnings per share for the Relevant Periods is based on the combined profit attributable to equity holders of the Company for each of the Relevant Periods and on 885,787,500 shares which has been determined after taking into account of the capitalisation issue as detailed in Appendix VI of the Prospectus.

There was no diluted earnings per share for the three years ended 31 December 2004, 2005 and 2006 and for six months ended 30 June 2006 and 2007 as there were no potential ordinary shares outstanding.



## 11. Property, plant and equipment and deposit made on acquisition of property, plant and equipment

	Buildings	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>THE GROUP</b>						
<b>COST</b>						
At 1 January 2004	8,072	7,427	2,165	61,712	—	79,376
Additions	—	331	3,400	6,071	—	9,802
Disposals	—	—	(480)	—	—	(480)
At 31 December 2004	8,072	7,758	5,085	67,783	—	88,698
Currency realignment	233	26	39	1,955	—	2,253
Additions	—	1,506	592	12,791	68,719	83,608
At 31 December 2005	8,305	9,290	5,716	82,529	68,719	174,559
Currency realignment	332	43	56	3,301	2,749	6,481
Additions	116,154	55,181	2,083	72,654	44,340	290,412
Disposals	—	—	(1,435)	—	—	(1,435)
Transfers	35,341	36,127	—	—	(71,468)	—
At 31 December 2006	160,132	100,641	6,420	158,484	44,340	470,017
Currency realignment	3,202	1,906	—	1,917	937	7,962
Additions	16,863	25,116	232	59,937	2,424	104,572
Transfers	37,921	6,427	—	—	(44,348)	—
Transfer to fellow subsidiaries	(8,637)	(918)	—	—	—	(9,555)
At 30 June 2007	209,481	133,172	6,652	220,338	3,353	572,996

**APPENDIX I**
**ACCOUNTANTS' REPORT**

	<b>Buildings</b>	<b>Furniture, fixtures and equipment</b>	<b>Motor vehicles</b>	<b>Plant and machinery</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>DEPRECIATION</b>						
At 1 January 2004	1,211	3,677	1,070	4,854	—	10,812
Provided for the year	274	1,789	631	9,060	—	11,754
Eliminated on disposals	<u>—</u>	<u>—</u>	<u>(352)</u>	<u>—</u>	<u>—</u>	<u>(352)</u>
At 31 December 2004	1,485	5,466	1,349	13,914	—	22,214
Currency realignment	43	4	—	401	—	448
Provided for the year	<u>415</u>	<u>1,085</u>	<u>945</u>	<u>9,531</u>	<u>—</u>	<u>11,976</u>
At 31 December 2005	1,943	6,555	2,294	23,846	—	34,638
Currency realignment	77	9	5	955	—	1,046
Provided for the year	2,479	4,511	1,090	12,161	—	20,241
Eliminated on disposals	<u>—</u>	<u>—</u>	<u>(1,435)</u>	<u>—</u>	<u>—</u>	<u>(1,435)</u>
At 31 December 2006	4,499	11,075	1,954	36,962	—	54,490
Currency realignment	43	72	—	92	—	207
Provided for the period	1,659	3,996	705	9,322	—	15,682
Transfer to fellow subsidiaries	<u>(2,452)</u>	<u>(235)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,687)</u>
At 30 June 2007	<u>3,749</u>	<u>14,908</u>	<u>2,659</u>	<u>46,376</u>	<u>—</u>	<u>67,692</u>
<b>CARRYING VALUES</b>						
At 31 December 2004	<u>6,587</u>	<u>2,292</u>	<u>3,736</u>	<u>53,869</u>	<u>—</u>	<u>66,484</u>
At 31 December 2005	<u>6,362</u>	<u>2,735</u>	<u>3,422</u>	<u>58,683</u>	<u>68,719</u>	<u>139,921</u>
At 31 December 2006	<u>155,633</u>	<u>89,566</u>	<u>4,466</u>	<u>121,522</u>	<u>44,340</u>	<u>415,527</u>
At 30 June 2007	<u>205,732</u>	<u>118,264</u>	<u>3,993</u>	<u>173,962</u>	<u>3,353</u>	<u>505,304</u>

All the buildings are located in the PRC under medium-term leases.

Deposit made on acquisition of property, plant and equipment represented amount paid before the property, plant and equipment were delivered to the Group. The amount is transferred to property, plant and equipment upon delivery of the assets to the Group.

During the years ended 31 December 2005 and 31 December 2006, property, plant and equipment with carrying value of HK\$1,396,000 and HK\$1,703,000 respectively, were transferred from the Cosmetics Business Branches to Cosmetics HK. These transfers were eliminated in the preparation of the combined financial information and were not shown in the above movement.

## 12. Land use rights and deposit made on acquisition of land use rights

Land use rights

	THE GROUP			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CARRYING VALUE				
At the beginning of the year/period	—	—	119,205	121,443
Currency realignment	—	—	4,768	2,567
Additions during the year/period	—	121,638	—	—
Charged to income statement for the year/period	—	(2,433)	(2,530)	(1,292)
At the end of the year/period	—	119,205	121,443	122,718

Deposit made on acquisition of land use rights

The balance represents prepayment of rentals of land situated in the PRC for a period of 50 years. Deposit made on acquisition of land use rights of HK\$111,120,000, which was paid by the Group in 2004 before the land use right certificate was obtained, was included in the 2005 additions as shown above when the land use rights certificate was obtained.

## 13. Intangible assets

	Licence
	<i>HK\$'000</i>
<b>THE GROUP</b>	
COST	
At 1 January 2004, 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007	20,767
ACCUMULATED AMORTISATION	
At 1 January 2004	7,787
Charge for the year	5,192
At 31 December 2004	12,979
Charge for the year	5,192
At 31 December 2005	18,171
Charge for the year	2,596
At 31 December 2006 and 30 June 2007	20,767
CARRYING VALUE	
At 31 December 2004	7,788
At 31 December 2005	2,596
At 31 December 2006 and 30 June 2007	—

Licence represents licence acquired from independent third party to exploit technical know-how for the manufacture of certain biotechnology products with medical and cosmetics applications, the underlying products relating to the licence acquired have been put into commercial production. Amortisation on the cost of licence has been provided on a straight-line basis over its estimated useful life of four years.

## 14. Goodwill

	<u>At 30 June 2007</u>
	<i>HK\$'000</i>
COST	
Arising on acquisition of additional interest in subsidiaries during the six months ended 30 June 2007	<u>222,963</u>

During the six months ended 30 June 2007, the Group acquired 6,800,000 shares of HK\$1 each in the issued share capital of Cosmetics HK (representing 17% of the entire issued share capital of Cosmetics HK) from Cristal Marketing Management Company Limited ("Cristal Marketing"), a minority shareholder of a subsidiary of the Company which held 30% in Cosmetics HK, for a consideration of HK\$241,090,000. The consideration was determined having regard to the net asset value and earnings of Cosmetics HK and its subsidiary and the market potential of their business. After the acquisition, the percentage of the issued share capital of Cosmetics HK held by the Group was changed from 70% to 87% and the goodwill arising from the acquisition by the Group amounted to approximately HK\$222,963,000 with reference to the consideration paid amounting to approximately HK\$241,090,000 and the carrying amounts of the net assets acquired amounting to approximately HK\$18,127,000.

All of the goodwill is allocated to the Cash Generating Unit ("CGU") of cosmetics business in Hong Kong and the PRC. During the six months ended 30 June 2007, management of the Group determines that there was no impairment of any of its CGU containing goodwill.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the six months ended 30 June 2007, the Group performed impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets for the next five years approved by management using the discount rate of 10% which reflects current market assessments of the time value of money and the credit risk specific to the CGUs. The cash flows for the remaining 15 years are extrapolated using a constant growth rate of 12% per annum which is made reference to the GDP growth rate in the PRC and also the industry growth forecasts for cosmetics business. No impairment loss was considered necessary.

## 15. Inventories

	<b>THE GROUP</b>			
	<u>At 31 December</u>			<u>At 30 June</u>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	7,047	4,988	5,290	13,717
Finished goods	<u>6,138</u>	<u>5,441</u>	<u>5,249</u>	<u>13,756</u>
	<u>13,185</u>	<u>10,429</u>	<u>10,539</u>	<u>27,473</u>

## 16. Trade and other receivables

	THE GROUP			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables from				
— a minority shareholder of a subsidiary	7,676	3,424	4,230	2,604
— third parties	119,853	56,743	51,440	21,978
Less: Allowance for doubtful debts	—	(6,000)	(6,000)	(6,000)
	127,529	54,167	49,670	18,582
Prepayments and deposits	3,303	2,450	1,865	2,254
	<u>130,832</u>	<u>56,617</u>	<u>51,535</u>	<u>20,836</u>

In 2004, the Group generally demanded cash on delivery or granted credit periods of 90 days. In 2005, the Group generally demanded cash on delivery or granted credit periods of 60 days. Starting from 2006, the Group requested prepayment from customers before delivery of goods, and the credit periods of 30 days will only be granted on a case-by-case basis. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Age				
0 to 30 days	35,461	35,696	44,717	17,541
31 to 60 days	32,173	18,471	1,078	86
61 to 90 days	38,085	—	539	51
91 days to 365 days	21,810	—	1,170	904
1 to 2 years	—	—	2,166	—
	<u>127,529</u>	<u>54,167</u>	<u>49,670</u>	<u>18,582</u>

Included in trade and other receivables are the following amount denominated in currency other than functional currency of the relevant entity to which it relates:

	THE GROUP			
	At 31 December			At 30 June
	2004	2005	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>equivalent</i>	<i>equivalent</i>	<i>equivalent</i>	<i>equivalent</i>
United States Dollar	—	778	2,762	5,778
	<u>—</u>	<u>778</u>	<u>2,762</u>	<u>5,778</u>

No interest is charged on the trade receivables. The Group has provided fully for all receivables over 360 days. Trade receivables between 60 and 360 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and objective evidences of impairment. The directors considered that the balance of the trade receivables approximates its fair value.

Included in the Group's trade receivable balances are debtors with a carrying amount of HK\$1,162,000, nil, nil and nil at 31 December 2004, 2005, 2006 and 30 June 2007 respectively, which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The age of these receivables was 120 days as at 31 December 2004.

Movement in the allowance for doubtful debts

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Balance at beginning of the year/period	—	—	6,000	6,000	6,000
Increase in allowance recognised in profit or loss	—	6,000	—	—	—
Balance at end of the year/period	<u>—</u>	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>

In determining the recoverability of the trade receivables, the Group reassesses any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the directors believe that no further allowance is required.

#### 17. Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank deposits carry at the prevailing market interest rate ranging from 0.125% to 0.72% per annum, 0.72% to 2.75% per annum, 0.72% to 2.8% per annum and 0.72% to 2.8% per annum at 31 December 2004, 2005, 2006 and 30 June 2007 respectively. The directors consider carrying amount of bank balances approximates its fair value.

Included in bank balances and cash are the following amounts denominated in currency other than functional currency of the relevant entity to which they relate:

	THE GROUP			
	At 31 December			At 30 June
	2004	2005	2006	2007
	HK\$'000 equivalent	HK\$'000 equivalent	HK\$'000 equivalent	HK\$'000 equivalent
United States Dollar	—	445	1,185	452
Euro	—	—	—	6
	<u>—</u>	<u>—</u>	<u>—</u>	<u>6</u>

## 18. Trade and other payables

	<b>THE GROUP</b>			
	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills payables	9,653	728	32,368	24,415
Other payables and accrued charges	4,987	16,463	29,512	33,565
Payable for acquisition of property, plant and equipment	<u>6,361</u>	<u>3,543</u>	<u>59,558</u>	<u>49,323</u>
	<u>21,001</u>	<u>20,734</u>	<u>121,438</u>	<u>107,303</u>

The Group normally receives credit terms of 30 days to 90 days from its suppliers. The following is an aged analysis of trade and bills payables at the balance sheet date:

	<b>THE GROUP</b>			
	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Age				
0 to 30 days	3,351	577	495	14,259
31 to 60 days	4,311	140	2,892	5,329
61 to 90 days	526	1	5,119	2,540
91 days to 365 days	<u>1,465</u>	<u>10</u>	<u>23,862</u>	<u>2,287</u>
	<u>9,653</u>	<u>728</u>	<u>32,368</u>	<u>24,415</u>

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant entity to which they relate:

	<b>THE GROUP</b>			
	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Great Britain Pound	—	—	498	618
United States Dollar	<u>—</u>	<u>368</u>	<u>526</u>	<u>—</u>

The directors consider the carrying amount of trade and other payables approximates its fair value.

## 19. Amounts due from (to) fellow subsidiaries/ultimate holding company/immediate holding company

The amounts are unsecured, interest-free and repayable on demand and are not trading in nature. The directors consider the carrying amounts of amounts due from (to) group companies approximate their fair values.

The directors of the Company have advised that all amounts due from (to) fellow subsidiaries/ultimate holding company/immediate holding company which are of a non-trade nature will be fully released, settled or capitalised on or before the day of listing of the Company's shares on the Main Board of the Stock Exchange.

## 20. Paid-in capital

The paid-in capital at 31 December 2004, 31 December 2005 and 31 December 2006 represented the sum of fully paid registered capital of Global Chemical, High Billion and GC France while the share capital at 30 June 2007 represented the issued and fully paid capital of the Company.

	<u>Number of shares</u>	<u>Amount</u> <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
On 7 June 2007 (date of incorporation)	1,000,000	100
Increases in authorised share capital	<u>19,999,000,000</u>	<u>1,999,900</u>
At 30 June 2007	<u><u>20,000,000,000</u></u>	<u><u>2,000,000</u></u>
Issued and fully paid:		
Issue of share on 7 June 2007 (date of incorporation)	1	—
Issue of shares pursuant to the Group Reorganisation	<u>90,849,999</u>	<u>9,085</u>
At 30 June 2007	<u><u>90,850,000</u></u>	<u><u>9,085</u></u>

The movements in the Company's authorised and issued share capital during the period from 7 June 2007 (date of incorporation) to 30 June 2007 are as follows:

- (a) Upon incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each of which one subscriber share was allotted and issued in cash at par on 7 June 2007.
- (b) On 30 June 2007, the authorised share capital of the Company was increased from HK\$100,000 to HK\$2,000,000,000 by the creation of an additional 19,999,000,000 ordinary shares of HK\$0.10 each.
- (c) On 30 June 2007, as part of the Group Reorganisation, the then immediate holding company of Global Chemical has swap its interest in Global Chemical for share in the Company. In consideration for such exchange, the Company allotted and issued an aggregate of 90,849,999 shares, credited as fully paid at par for all the share capital of Global Chemical of 100 shares of US\$1 each.

All the shares issued by the Company during the period subsequent to date of incorporation rank pari passu with the then existing share in all respects.



## 21. Reserves

Special reserve includes (i) the net contribution made by or advance to the companies holding the Cosmetics Business Branches (not forming part of the Group), which is the sum of profit/loss of the Cosmetics Business Branches and the net payment/receipt made by the companies holding the Cosmetics Business Branches (not forming part of the Group) on behalf of the Cosmetics Business Branches for the operation of the Cosmetics Business Branches, and the amounts of net assets deemed transferred to these companies in January 2007; (ii) the difference between the nominal value of the 90,849,999 Company's shares issued for exchange for all issued share capital of Global Chemical and the nominal value of the share capital of Global Chemical; (iii) consideration paid for the acquisition of High Billion in 2001 by the Company's ultimate holding company which is equal to the then fair value of net assets acquired; and (iv) the carrying amount of motor vehicle and plant and machinery of the Cosmetics Business Branches which were legally transferred to the Group on 30 September 2007 as part of the Group's reorganisation exercise.

Other reserve comprises the fair value of share options granted to employees, suppliers and customers of the Group by the ultimate holding company, recognised in accordance with the accounting policy for share-based payment transactions in note 3.

The reserve of the Company represents the difference between the aggregate carrying amount of the assets of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition at the time of the Group Reorganisation.

## 22. Major non-cash transactions

All the transactions of the Cosmetics Business Branches were settled by the respective headquarters, net balance of which is included in the special reserve as discussed in note 21.

During the year ended 31 December 2006, dividends of HK\$135,000,000 were settled through the current account with the immediate holding company.

The consideration of HK\$241,090,000 for the acquisition of further interest in subsidiaries during the six months ended 30 June 2007 was paid by immediate holding company on behalf of the Company.

The share-based payment made by the ultimate holding company to the employees, suppliers and customers of the Group was credited to other reserve of the Group for the year ended 31 December 2004.

## 23. Operating lease commitments

At the balance sheet dates, the Group was committed to make the following future minimum lease payments in respect of its leased office premises under non-cancellable operating leases with fixed and pre-determined lease payments which fall due as follows:

	<b>THE GROUP</b>			
	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	83	97	89	100
In the second to fifth year inclusive	350	369	393	401
Over five years	6,692	6,790	6,963	6,794
	<u>7,125</u>	<u>7,256</u>	<u>7,445</u>	<u>7,295</u>

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for a term of 1 year to 50 years and rentals are increased by 10% every 5 years.

At the balance sheet dates, the Group had contracted with tenants, in respect of the premises leased to the tenants for production purpose, for periods up to three years at fixed predetermined amounts, for the following future minimum lease payments:

	<b>THE GROUP</b>			
	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	—	635	562	573
In the second to fifth year inclusive	—	1,125	608	335
	—	1,760	1,170	908

No contingent rent was arranged for the above operating lease arrangements during the Relevant Periods.

The Company does not have any lease commitment at the balance sheet dates.

#### 24. Capital commitments

	<b>THE GROUP</b>			
	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the Financial Information in respect of				
— acquisition of property, plant and equipment	590	6,796	17,388	26
	590	6,796	17,388	26

The Company has no significant capital commitments at the balance sheet dates.

#### 25. Contingent liabilities

The Group and the Company have no significant contingent liabilities at the balance sheet dates.

## 26. Related party transactions

During the Relevant Periods, the Group has the following significant transactions with related parties:

Nature of transaction	Name of related party and relationship	Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Share-based payment made by ultimate holding company (note i)	Global Green Tech Group Limited (note ii)	<u>7,848</u>	<u>13,461</u>	<u>8,034</u>	<u>4,017</u>	<u>4,460</u>
(b) Sales of goods to a minority shareholder	Cristal Marketing Management Company Limited (note iii)	<u>13,566</u>	<u>8,868</u>	<u>7,785</u>	<u>2,205</u>	<u>2,563</u>
(c) Royalty income received from a minority shareholder	Cristal Marketing Management Company Limited (note iii)	<u>2,755</u>	<u>1,706</u>	<u>446</u>	<u>446</u>	<u>—</u>
(d) Advertising and promotional income received from a minority shareholder	Cristal Marketing Management Company Limited (note iii)	<u>2,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(e) Research and development expenses paid to a fellow subsidiary	Dongguan Polygene Biotech Co., Limited (note iv)	<u>—</u>	<u>—</u>	<u>4,979</u>	<u>—</u>	<u>—</u>
(f) Staff costs and other administrative expenses charged by a fellow subsidiary	Global Chemicals (China) Company Limited (note iv)	<u>—</u>	<u>2,024</u>	<u>7,580</u>	<u>3,669</u>	<u>2,377</u>
(g) Administrative expenses charged by ultimate holding company	Global Green Tech Group Limited (note ii)	<u>3,700</u>	<u>4,100</u>	<u>3,500</u>	<u>1,750</u>	<u>—</u>
(h) Net assets of Cosmetics Business Branches transferred to fellow subsidiaries at carrying value (note v)	Dongguan Proamine Chemical Co., Limited (note iv)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,858</u>

Other than the above, property, plant and equipment with carrying value of HK\$31,969,000 at 30 June 2007 were used by its fellow subsidiary at nil consideration for the period from January 2007 to June 2007.

*Notes:*

- (i) Global Green Tech Group Limited, the ultimate holding company, applied the transitional provision under HKFRS 2 "Share-based Payment" and did not account for the fair value of the share options granted by the ultimate holding company after 7 November 2002 and had been vested before 1 January 2005. Thus, Global Green Tech Group Limited did not record expense for the equity-settled share-based payment transactions for the year ended 31 December 2004, and there was no recharge of the share-based payment expenses by the ultimate holding company to the Group for that year. While the Group consistently applied the HKFRS 2 for the Relevant Periods, the share-based payment made by the ultimate holding company to the employees, suppliers and customers of the Group was recognised as expenses and the same amount was credited to other reserve of the Group for the year ended 31 December 2004 as the amount was considered as capital contribution from the ultimate holding company.
- (ii) Global Green Tech Group Limited is the Company's ultimate holding company.
- (iii) Cristal Marketing is a minority shareholder of a subsidiary of the Group and its entire issued share capital is held by Supreme China Limited, a company incorporated in BVI and wholly owned by Mr. Leung Hung Fai. In the opinion of the directors of the Company, Supreme China Limited is not related to the Group.
- (iv) These companies are fellow subsidiaries of the Company and are wholly-owned subsidiaries of Global Green Tech Group Limited.
- (v) No gain or loss arose as a result of the transfer of net assets of Cosmetics Business Branches to fellow subsidiaries.

The above items (a) and (b) will continue after listing of the shares of the Company on the Main Board of the Stock Exchange while the above items (c) to (h) will be discontinued after listing of the shares of the Company on the Main Board of the Stock Exchange.

Details of the balances with related parties at each of the balance sheet dates are set out in notes 16 and 19, which represented by (a) amounts due from/to fellow subsidiaries, including GCC Finance Company Limited, Cosmos World Limited, Global Chemicals (China), Dongguan Proamine, Gao Bao Chemical and Dongguan Polygene Biotech Co., Limited, (b) amount due to ultimate holding company, Global Green Tech Group Limited, (c) amount due to immediate holding company, Global Success Properties Limited and (d) trade receivables from a minority shareholder of a subsidiary, Cristal Marketing. In the opinion of the directors of the Company, all amounts due from (to) fellow subsidiaries/ultimate holding company/immediate holding company/minority shareholder which are of a non-trade nature will be fully released, settled or capitalised immediately prior to the day of listing of shares of the Company on the Main Board of the Stock Exchange.

The ultimate holding company has given guarantee to banks for unlimited amount as at 31 December 2004 and guarantee amounting to approximately HK\$123,000,000, HK\$32,000,000 and HK\$20,000,000 as at 31 December 2005 and 2006 and 30 June 2007, respectively, to secure the facilities granted to certain subsidiaries of the Group. The directors of the Company have advised that these guarantees will be released immediately prior to the day of listing of shares of the Company on the Main Board of the Stock Exchange.

*Compensation of key management personnel*

The remuneration of directors and other members of key management during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term benefits	2,185	3,130	5,131	2,835	2,807
Share-based payments	459	738	777	474	507
Post-employment benefits ( <i>note</i> )	44	70	79	40	39
	<u>2,688</u>	<u>3,938</u>	<u>5,987</u>	<u>3,349</u>	<u>3,353</u>

*Note:* It represents the payments to Mandatory Provident Fund Scheme by the Group.

The remuneration of directors and key executive is determined with reference to the performance of individual and market trends.

## 27. Financial instruments

The Group's major financial instruments include trade and other receivables, amounts due from (to) group companies, bank balances and cash, trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposure to ensure appropriate measures are implemented on a timely and effective manner.

Details of the significant accounting policies adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 3.

### *Credit risk*

The Group's principal financial assets are trade and other receivables and bank balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank deposits and bank balances is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

The credit risk of the Group is concentrated as included in the Group's trade receivables as at 31 December 2004, 2005 and 2006 and 30 June 2007, approximately HK\$118,890,000, HK\$47,885,000, HK\$23,228,000 and HK\$3,673,000, respectively, were derived from the top five major customers of the Group at each of the balance sheet dates. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by weekly review of the settlement status of such major customers by a dedicated division to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debt.

Turnover attributable to the Group from these customers accounted for approximately 98%, 93%, 66% and 52% of the Group's total turnover for the years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007 respectively.

#### *Foreign currency risk*

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its transactions are denominated in RMB (the functional currency of the Group's major subsidiaries and relevant branches) and there were only insignificant balances of financial assets and liabilities denominated in foreign currency at the balance sheet dates as disclosed in respective notes. The 2 per cent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The management determined that there is insignificant effect to the profit or loss and other equity of the Group. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

#### *Liquidity risk management*

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining banking facilities and by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. In the past, the Group relied on the financial support of the ultimate holding company which is a listed company in the Main Board of the Stock Exchange.

The Group had combined net current liabilities of HK\$675,739,000 at 30 June 2007. The directors of the Company consider that it is appropriate to prepare the Financial Information on a going concern basis because, as set out in Section G below, certain of the amounts due to fellow subsidiaries, immediate holding company and ultimate holding company amounted to HK\$480 million have been capitalised as equity of the Company, and a bridging loan has been arranged to settle the remaining balances due to related companies immediately prior to the day of the listing of shares of the Company on the Main Board of the Stock Exchange.

The following table details the Group's expected maturity of the financial instruments, which are different from the actual contract dates, except for the trade payables.

	<b>On demand</b>	<b>Over 6 months but not more than 1 year</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note)</i>	<i>HK\$'000</i>
At 31 December 2004			
<b>Financial assets</b>			
Non-interest bearing	130,520	14,770	145,290
Fixed interest rate instruments	13,732	—	13,732
	<u>144,252</u>	<u>14,770</u>	<u>159,022</u>
<b>Financial liabilities</b>			
Non-interest bearing	<u>21,001</u>	<u>84,644</u>	<u>105,645</u>
At 31 December 2005			
<b>Financial assets</b>			
Non-interest bearing	54,608	70	54,678
Fixed interest rate instruments	11,689	—	11,689
	<u>66,297</u>	<u>70</u>	<u>66,367</u>
<b>Financial liabilities</b>			
Non-interest bearing	<u>20,734</u>	<u>123,766</u>	<u>144,500</u>
At 31 December 2006			
<b>Financial assets</b>			
Non-interest bearing	50,854	5,687	56,541
Fixed interest rate instruments	118,289	—	118,289
	<u>169,143</u>	<u>5,687</u>	<u>174,830</u>
<b>Financial liabilities</b>			
Non-interest bearing	<u>121,438</u>	<u>545,545</u>	<u>666,983</u>
At 30 June 2007			
<b>Financial assets</b>			
Non-interest bearing	20,225	7,686	27,911
Fixed interest rate instruments	36,881	—	36,881
	<u>57,106</u>	<u>7,686</u>	<u>64,792</u>
<b>Financial liabilities</b>			
Non-interest bearing	<u>107,303</u>	<u>645,564</u>	<u>752,867</u>

*Note:* The amounts primarily represent the receivables from or payables to group companies at each balance sheet dates.

*Interest rate risk management*

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets, mainly interest bearing bank balances at prevailing market interest rates. However, the management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances at the respective balance sheet dates and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances that have floating rates.

If interest rates on bank balances had been 100 basis points higher/lower and all other variables were held constant, the potential effect on profit for the year/period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase/decrease in profit for the year/period	<u>137</u>	<u>117</u>	<u>137</u>	<u>59</u>	<u>69</u>

The Group's sensitivity to interest rates on bank balances varies according to the bank balances during the Relevant Periods.

*Fair value of financial instruments*

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values at the respective balance sheet dates.

*Capital risk management*

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of bank deposits, cash and cash equivalents and equity attributable to equity holders of the Company, comprising share capital and retained profits as disclosed in the Financial Information. At 31 December 2004, 2005 and 2006 and 30 June 2007, no external debts are raised by the Group.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues of the proposed floatation of the Company as well as the raise of bank borrowings.

28. **Share-based payment transactions**

During the Relevant Periods, share options of Global Green Tech Group Limited, the ultimate holding company, include options granted for the primary purpose of providing incentives to directors of the Company including Judy Lau, Wong Wai Kwan Connie and Lui Wai Mui Grace, eligible employees, customers and suppliers of the Group, who were only employed by the Group or rendered services solely to the Group, under the share option schemes of the ultimate holding company.



The options were granted on 7 June 2004, 13 June 2005 and 20 June 2006 and the estimated fair values of the options are HK\$7,848,000, HK\$13,461,000 and HK\$16,744,000 respectively.

The Group recognised the total expense of HK\$7,848,000, HK\$13,461,000 and HK\$8,034,000 for each of the year ended 31 December 2004, 2005 and 2006 respectively, HK\$4,017,000 and HK\$4,460,000 for the six months ended 30 June 2006 and 30 June 2007 respectively. For the options granted on 20 June 2006, the fair value was expensed on a straight-line basis over the vesting period, from the date of options granted to 19 June 2008. Other options were vested immediately on the dates of grant. The corresponding amount to the total expenses of HK\$7,848,000 for the year ended 31 December 2004 has been recognised as a credit to reserve. The corresponding amount to the total expenses for the year ended 31 December 2005, 2006, and six months ended 30 June 2007 were charged by the ultimate holding company and credited to amount due to the ultimate holding company. If certain vesting conditions cannot be fulfilled, the amounts to be charged to income statements will be reduced.

The options granted to the customers and suppliers in exchange for the increased customers loyalty and suppliers' constant supply to the Group. The fair value of such benefit could not be estimated reliably and as a result, their fair values are measured by reference to the fair value of share options granted. The estimate of the fair value of the options is measured based on a binomial lattice model, which is the acceptable valuation model with reference to HKFRS 2, and the valuation, which comprised of option granted to the Group's and the Company's directors, eligible employees, customers and suppliers, have been carried out by independent professional valuers not connected to the Group, namely Messrs. Sallmanns (Far East) Limited, whose address is 22/F, Siu On Centre, 188 Lockhart Road, Hong Kong. The contractual life of the options is used as an input into this model. Expectation of early exercise are incorporated into the binomial lattice model.

<b>Fair value of share options and assumptions</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Fair value at measurement date	HK\$0.178	HK\$0.183	HK\$0.228
Share price of Global Green Tech Group Limited	HK\$0.680	HK\$0.790	HK\$0.900
Exercise price of the shares of Global Green Tech Group Limited	HK\$0.630	HK\$0.800	HK\$0.890
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	49.92%	45%	41%
Option life (contractual life of the options)	3 years	3 years	3 years
Expected dividends	3.59%	3.42%	3.42%
Risk-free interest rate (based on Exchange Fund Notes)	2.96%	3.21%	4.65%

The expected volatility is based on the historical volatility of the share price of Global Green Tech Group Limited. Expected dividends are based on historical dividends. Changes in the subjective input assumption could materially affect the fair value estimate.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. As part of the valuers' analysis, they have reviewed the financial information of Global Green Tech Group Limited, management representations, project documentation and other pertinent data concerning the valuation of the option made available to the valuers during the course of their exercise. The valuers have assumed the accuracy of, and have relied on the information and management representation provided in arriving at their opinion. The value of the options varies with different variables of certain subjective assumptions.

**29. Key sources of estimation uncertainty**

In the process of applying the Group's accounting policies which are described in note 3, management has made the following estimation that have significant effect on the amounts recognised in the Financial Information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

***Estimated impairment of goodwill***

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. At 30 June 2007, the carrying amount of goodwill was approximately HK\$222,963,000 arising from acquisition of additional interest in subsidiaries.

**30. Retirement benefits scheme**

The Group participates in a Mandatory Provident Fund Scheme which was established under the Mandatory Provident Fund Ordinance in December 2000 (the "MPF Scheme"). The assets of the schemes are held separately from those of the Group and are invested in funds under the control of independent trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the PRC subsidiary and Cosmetics Business Branches are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary and Cosmetics Business Branches are required to contribute 8% of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

**F. DIRECTORS' REMUNERATION**

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods.

Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2007 is expected to be HK\$4.2 million.

**G. SUBSEQUENT EVENTS**

The following significant events took place subsequent to 30 June 2007:

- (a) Pursuant to the subscription agreement dated 3 July 2007 entered into between the Company and an investor, the Company agreed to issue 91,500 convertible preference shares ("REPS") to an investor at a consideration of US\$21 million. The convertible preference shares were issued on 7 August 2007 with a face value of US\$229.51 each.

Principal terms of the REPS:

Each of the preference shares is automatically fully convertible into 100 ordinary shares of the Company immediately prior to the day of listing of shares of the Company on the Main Board of the Stock Exchange.

The REPS, with respect to distribution of assets and liquidation, dissolution or winding up, shall rank prior to the ordinary shares of the Company. The REPS shall also rank in priority to dividend on the ordinary shares of the Company in respect of their preferential dividends, but shall not otherwise rank in priority to ordinary shares with respect of any other distribution and any other dividend.

The exchange rate of all payment to be made to the investor was fixed at US\$1.00 to RMB 7.8.

The investor is entitled to a dividend of 5% payable in cash in arrears annually on the anniversary of the date of issue and allotment of the REPS ("Preferred Dividend").

The investor has the option to immediately redeem any or all of its REPS 24 months after the date of issue of the REPS at a price which would yield the investor an internal rate of return of 20% per annum for the first 24 months from the date of issue of the REPS ("Redemption Right"). The Redemption Right granted to the investor and the Preferred Dividend will be terminated immediately prior to the day of listing of shares of the Company on the Main Board of the Stock Exchange.

- (b) On 6 August 2007, the amounts due to fellow subsidiaries, amount due to immediate holding company and amount due to ultimate holding company amounting to HK\$480 million have been capitalised as equity of the Company.
- (c) Pursuant to an acquisition agreement dated 16 August 2007 entered into between Cristal Marketing, Global Chemical and Global Green Tech Group Limited, Global Chemical agreed to acquire the 13% equity interest of Cosmetics HK from Cristal Marketing for consideration of HK\$274,057,887 payable by Global Green Tech Group Limited by transfer of 13,936,390 ordinary shares of HK\$0.10 each of the Company. The consideration was determined based on (i) profitability of Cosmetics HK and the Company for the year ended 31 December 2006 and (ii) the profit/earning ratio of the Company calculated with reference to the subscription price of the REPS in issue.
- (d) On 15 November 2007, shareholders' resolutions were passed to approve the matters set out in the paragraph headed "Resolutions in writing of the Shareholders passed on 15 November 2007" in Appendix VI to the Prospectus.
- (e) Pursuant to a letter of approval issued by the local authority, the registered capital of Cosmetics China has been increased from HK\$60,000,000 by HK\$240,000,000 to HK\$300,000,000 on 28 August 2007.
- (f) On 14 September 2007, Cosmetics China appropriated RMB31,695,000 and RMB4,685,000 to reserve fund and staff welfare and benefit fund, respectively.

- (g) Pursuant to the Group Reorganisation, and an agreement dated 30 September 2007 (and supplemented by an agreement dated 8 October 2007), Cosmetics China acquired certain motor vehicle and plant and machinery from the Cosmetics Business Branch of Gao Bao Chemical at a total cash consideration of approximately RMB29,627,000, which represented all those motor vehicle and plant and machinery that were utilised to generate all the revenue for the Cosmetics Business Branches during the Relevant Periods, and the consideration was determined based on the net book value of those motor vehicle and plant and machinery as at 30 September 2007.
- (h) On 7 November 2007, the Company obtained a facility of a bridging loan from a bank amounting to HK\$300,000,000 for the repayment of amounts due to related companies.

#### H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2007.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

<b>APPENDIX II      UNAUDITED PRO-FORMA FINANCIAL INFORMATION</b>
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**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The information set out in this Appendix does not form part of the Accountant’s Report prepared by the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this prospectus and the Accountant’s Report as set out in Appendix I to this prospectus.

**(a) Unaudited Pro Forma Adjusted Net Tangible Assets**

The following statement of unaudited pro forma adjusted net tangible assets of the Group prepared in according to Rule 4.29 of the Listing Rules is for illustrative proposed only, and is set out here to illustrate the effect of the Global Offering on the combined net tangible assets of the Group as at 30 June 2007 as if it had taken place on 30 June 2007.

The unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group following the Global Offering or at any future date. It is prepared based on the net tangible assets of the Group as at 30 June 2007 as shown in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Audited combined net assets of the Group attributable to the equity holders of the Company as at 30 June 2007	Less: intangible assets of the Group as at 30 June 2007	Estimated net proceeds from the Global Offering	Unaudited pro forma net tangible assets of the Group attributable to the equity holders of the Company	Unaudited pro forma net tangible assets per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i> <i>(Note 3)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 4)</i>
Based on the Offer Price of HK\$6.18 per Share	<u>147,914</u>	<u>222,963</u>	<u>1,876,001</u>	<u>1,800,952</u>	<u>1.39</u>
Based on the Offer Price of HK\$4.88 per Share	<u>147,914</u>	<u>222,963</u>	<u>1,476,739</u>	<u>1,401,690</u>	<u>1.08</u>

Notes:

1. The audited combined net assets of the Group attributable to the equity holders of the Company as at 30 June 2007 is extracted from the Accountants’ Report in Appendix I to this prospectus.
2. The intangible assets of the Group represented the goodwill of the Group as at 30 June 2007 as disclosed in the Accountants’ Report in Appendix I to this prospectus.

## APPENDIX II UNAUDITED PRO-FORMA FINANCIAL INFORMATION

3. *The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$6.18 per Share and HK\$4.88 per Share, after deducting of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may fall to be sold upon the exercise of the Over-allocation Option.*
4. *The unaudited pro forma net tangible assets per Share is arrived at after the adjustment referred to in the preceding paragraphs and on the basis that 1,300 million Shares were in issue, assuming that the Global Offering and the Capitalisation Issue have been completed on 30 June 2007 but takes no account of any Shares which may fall to be sold upon the exercise of the Over-allocation Option.*
5. *The property interests of the Group as at 30 September 2007 have been valued by BMI Appraisals Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. Since there is a valuation deficit arising from the valuation of the property interest of the Group amounting to HK\$33 million, no additional depreciation expenses would have been charged against the income statement had such assets been stated at valuation.*

### (b) Unaudited Pro Forma Forecast Fully Diluted Earnings per Share

The following unaudited pro forma forecast fully diluted earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2007. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial results of the Group following the Share Offer or for any future period.

Forecast combined profit attributable to equity

holders of the Company (*Notes 1 & 2*) . . . . . not less than HK\$205.3 million

Forecast fully diluted earnings per Share (*Note 3*) . . . . . not less than HK\$0.16

*Notes:*

1. *The bases and assumptions on which the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 has been prepared are summarised in Appendix III to this prospectus.*
2. *The forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 prepared by the Directors is based on the audited combined results of the Group for the six months ended 30 June 2007, the Group's unaudited combined management accounts for three months ended 30 September 2007 and a forecast of the combined results of the Group for the remaining three months ending 31 December 2007 on the basis that the current Group structure had been in existence throughout the whole financial year ending 31 December 2007. The forecast has been prepared on the basis of the accounting policies being consistent in all material aspects with those currently adopted by the Group as stated in Accountants' Report set out in Appendix I to this prospectus.*
3. *The calculation of the forecast earnings per Share is based on the assumption that the Company had been listed since 1 January 2007 and a total number of 1,300 million Shares were in issued throughout the year.*



**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION  
TO THE DIRECTORS OF BIO BEAUTY GROUP LTD.**

We report on the unaudited pro forma adjusted net tangible assets and pro forma forecast fully diluted earnings per share (“Unaudited Pro Forma Financial Information”) of Bio Beauty Group Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed global offering might have affected the financial information presented, for inclusion in Appendix II of the prospectus dated 4 December 2007. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 and II-2 in Appendix II of the Prospectus.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

## APPENDIX II UNAUDITED PRO-FORMA FINANCIAL INFORMATION

### Basis of opinion

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date; or the earnings per share of the Group for the year ending 31 December 2007 or any future periods.

### Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

4 December 2007



The forecast of the combined profit attributable to equity holders of the Company for the year ending 31 December 2007 is set out in the paragraph headed “Profit Forecast” under the section headed “Financial Information” in this prospectus.

#### 1. BASES AND ASSUMPTIONS

The Directors have prepared the forecast combined profit attributable to equity holders of the Company for the year ending 31 December 2007 on the basis of audited combined accounts of the Group for the six months ended 30 June 2007, the unaudited combined management accounts of the Group for the three months ended 30 September 2007 and a forecast of the combined results of the Group for the remaining three months ending 31 December 2007. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2007. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the Accountants’ Report which is set out in Appendix I to this prospectus.

The Directors have made the following principal assumptions in the preparation of the forecast:

- (a) there will be no material change in the existing political, legal, fiscal or economic conditions in the PRC, Hong Kong or any of the countries in which we carry on our business;
- (b) there will be no material changes in the bases or rates of taxation or duties in the PRC or any of the countries in which we operate or in which we are incorporated or registered;
- (c) there will be no material changes in foreign currency exchange rates, interest rates and inflation rates from those currently prevailing; and
- (d) there will be no material changes in the legislation or regulations in the PRC and Hong Kong or any of the countries in which we operate or in which we are incorporated or registered, which will affect our business.

## 2. LETTERS

The following are the texts of letters, prepared for inclusion in this prospectus, received from (i) the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, and (ii) the Joint Sponsors, in connection with the forecast of the combined profit attributable to equity holders of the Company for the year ending 31 December 2007.

### (i) Letter from Deloitte Touche Tohmatsu

**Deloitte.**  
**德勤**

德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

4 December 2007

The Directors  
Bio Beauty Group Ltd.  
Macquarie Securities Limited  
ICEA Capital Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the combined profit of Bio Beauty Group Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending 31 December 2007 attributable to equity holders of the Company (the “Forecast”), for which the directors of the Company are solely responsible, as set out in the prospectus dated 4 December 2007 issued by the Company. The Forecast is prepared based on the audited results of the Group for the six months ended 30 June 2007, the results for the three months ended 30 September 2007 shown in the unaudited management accounts of the Group, and a forecast of the results for the remaining three months of the financial year ending 31 December 2007.

In our opinion the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out on page III-1 of Appendix III of the above-mentioned prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report of the financial information on the Group for the three years ended 31 December 2006 and the six months ended 30 June 2007 in Appendix I of the above-mentioned prospectus.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

## (ii) Letter from the Joint Sponsors



4 December 2007

The Directors  
Bio Beauty Group Ltd.

Dear Sirs,

We refer to the forecast of the combined profit attributable to equity holders of Bio Beauty Group Ltd. (the "Company") for the year ending 31 December 2007 (the "Profit Forecast") as set out in the prospectus issued by the Company dated 4 December 2007 (the "Prospectus").

The Profit Forecast, for which you as the directors of the Company (the "Directors") are solely responsible, has been prepared based on the audited combined accounts of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2007, the unaudited combined management accounts of the Group for the three months ended 30 September 2007 and a forecast of the combined results of the Group for the remaining three months ending 31 December 2007.

We have discussed with you the bases and assumptions made by the Directors, as set out in part 1 of Appendix III to the Prospectus, upon which the Profit Forecast has been made. We have also considered the letter dated 4 December 2007 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,

For and on behalf of  
**Macquarie Securities Limited**  
**William Je**  
*Managing Director*

**Debora Cheng**  
*Managing Director*

For and on behalf of  
**ICEA Capital Limited**  
**Fabian Shin**  
*Managing Director*

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from BMI Appraisals Limited, an independent valuer, in connection with its valuations of the properties located in the PRC and Hong Kong held and rented by the Group.*

## BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong  
香港灣仔港灣道6-8號瑞安中心3111-18室  
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863  
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

4 December 2007

The Directors

**Bio Beauty Group Ltd.**

Office Units 3402-06, 34th Floor

Office Tower, Convention Plaza

No. 1 Harbour Road

Wanchai, Hong Kong

Dear Sirs,

### INSTRUCTIONS

We refer to your instructions for us to value the properties held and rented by Bio Beauty Group Ltd. (the “Company”) and/or its subsidiaries (together referred to as the “Group”) located in Hong Kong and the People’s Republic of China (the “PRC”). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 September 2007 (the “date of valuation”).

### BASIS OF VALUATION

Our valuations of the concerned properties have been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

**PROPERTY CATEGORIZATION**

In the course of our valuations, the portfolio of properties of the Group is categorized into the following groups:

Group I	—	Property held by the Group in the PRC
Group II	—	Properties rented by the Group in Hong Kong
Group III	—	Property rented by the Group in the PRC

**VALUATION METHODOLOGIES***Group I*

For the property located in the PRC, owing to the inherent nature of usage and lack of market sale comparables for the buildings and structures constructed upon the property, this property has been valued by the Depreciated Replacement Cost Approach. This approach requires an estimate of the market value of the land parcel in the existing state by the comparison approach and an estimate of the new replacement cost of the buildings and other site works, from which deductions are then made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc; all of these might result in the existing property being worth less than a new replacement. This opinion of value does not necessarily represent the amount that might be realised from the disposition of the subject asset in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for assets without a known used market.

In valuing portions of the property, which are held for investment by the Group, we have also adopted the Investment Approach by taking into account the current rents passing or the hypothetical rents and the reversionary potentials of the tenancies if they have been or would be let to tenants.

*Groups II & III*

Regarding the properties rented by the Group, we are of the opinion that they have no commercial value either because of the prohibitions against subletting and/or assignment contained in the respective tenancy agreements or the lack of marketable and/or substantial profit rents.

**TITLE INVESTIGATION***Group I*

We have been provided with copies of title/legal documents and have been advised by the Group that no further relevant documents have been produced. Moreover, due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to

ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuations, we have relied on the advice and information given by the Group and its PRC legal adviser Guangdong Harbour Law Firm (廣東海埠律師事務所) regarding the title of the PRC property. All documents have been used for reference only.

#### *Groups II & III*

Regarding the properties rented by the Group in Hong Kong and the PRC, we have not searched the titles of the properties and have not scrutinised the original title documents to verify ownership. However, we have been given a copy of the tenancy agreements of such properties. All documents have been used for reference only.

#### **VALUATION ASSUMPTIONS**

Our valuations have been made on the assumption that the properties are sold in the open market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the properties. In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing the properties, we have relied on the advice given by the Group that the Group has valid and enforceable titles to the properties which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

#### **VALUATION CONSIDERATIONS**

We have inspected the exterior and wherever possible, the interior of the properties included within the attached valuation certificates. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been made and we are therefore unable to report as to whether the properties are free from rot, infestation or other defects. No tests were carried out on any of the services.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the leases and other documents provided to us and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information so supplied.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **REMARKS**

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars (HK\$) and no allowances have been made for any exchange transfers. The exchange rate adopted is the average rate as at 30 September 2007 being HK\$1 = RMB0.96713. There has been no significant fluctuation in the exchange rate between that date and the date of this letter.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,  
For and on behalf of  
**BMI APPRAISALS LIMITED**

**Dr. Tony C.H. Cheng**

*BSc, MUD, MBA (Finance), MSc (Eng),  
PhD (Econ), MHKIS, MCI Arb, AFA, SIFM, FCIM,  
MASCE, MIET, MIEEE, MASME, MIIE*

**Director**

**Joannau W.F. Chan**

*BSc, MSc, MRICS MHKIS RPS(GP)*  
**Director**

*Notes:*

*Dr. Tony C.H. Cheng is a Chartered Surveyor who has over 15 years' experience in valuations of properties in Hong Kong and the People's Republic of China.*

*Ms. Joannau W.F. Chan is a Chartered Surveyor who has over 15 years' experience in valuations of properties in Hong Kong and over 9 years' experience in valuations of properties in the People's Republic of China.*

## SUMMARY OF VALUES

No. Property	Market Value in existing state as at 30 September 2007 HK\$	Interest attributable to the Group	Value attributable to the Group as at 30 September 2007 HK\$
<b>Group I — Property held by the Group in the PRC</b>			
1. Land parcels together with various buildings and structures located at Tu Tang Village, Chang Ping Town, Dongguan City, Guangdong Province, the PRC	293,800,000	100%	293,800,000
<b>Sub-total:</b>	293,800,000	<b>Sub-total:</b>	293,800,000
<b>Group II — Properties rented by the Group in Hong Kong</b>			
2. Office Units B, C, D and E on 34th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	No Commercial Value	100%	No Commercial Value
3. Office Unit 3301 on 33rd Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	No Commercial Value	100%	No Commercial Value
4. Workshop Unit 16 on 10th Floor, Vanta Industrial Centre, Nos. 21-33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong	No Commercial Value	100%	No Commercial Value
<b>Sub-total:</b>	Nil	<b>Sub-total:</b>	Nil



**APPENDIX IV**

**PROPERTY VALUATION**

No. Property	Market Value in existing state as at 30 September 2007 HK\$	Interest attributable to the Group	Value attributable to the Group as at 30 September 2007 HK\$
<b>Group III — Property rented by the Group in the PRC</b>			
5. Portions of 2 buildings erected thereon a land parcel located at Tu Tang Village, Chang Ping Town, Dongguan City, Guangdong Province, the PRC	No Commercial Value	100%	No Commercial Value
<b>Sub-total:</b>	Nil	<b>Sub-total:</b>	Nil
<b>Total:</b>	<u>293,800,000</u>	<b>Total:</b>	<u>293,800,000</u>

## VALUATION CERTIFICATE

## Group I - Property held by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2007 HK\$																								
1.	Land parcels together with various buildings and structures located at Tu Tang Village, Chang Ping Town, Dongguan City, Guangdong Province, the PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 54,398.41 sq.m. upon which 21 buildings, mostly completed between 2006 and 2007, were erected.</p> <p>The total gross floor area ("GFA") of the property is approximately 59,576.51 sq.m.</p> <p>The 21 buildings of the property comprise 14 factory buildings, 2 warehouses, 3 dormitory buildings and 2 dormitory buildings for the senior staffs. Details of which are listed as below:</p> <p><b>Owner-occupied Portion:</b></p> <table border="1"> <thead> <tr> <th style="text-align: left;">Building</th> <th style="text-align: right;">GFA (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Factory Nos. 1 &amp; 2</td> <td style="text-align: right;">3,641.58</td> </tr> <tr> <td>Factory No. 10</td> <td style="text-align: right;">4,521.57</td> </tr> <tr> <td>Factory No. 11</td> <td style="text-align: right;">5,865.88</td> </tr> <tr> <td>Factory No. 12</td> <td style="text-align: right;">5,450.18</td> </tr> <tr> <td>Warehouse</td> <td style="text-align: right;">3,180.00</td> </tr> <tr> <td>Warehouse</td> <td style="text-align: right;">2,296.00</td> </tr> <tr> <td>Dormitory No. 5</td> <td style="text-align: right;">2,397.68</td> </tr> <tr> <td>Dormitory No. 6</td> <td style="text-align: right;">1,798.26</td> </tr> <tr> <td>Senior Staff Dormitory</td> <td style="text-align: right;">5,755.00</td> </tr> <tr> <td>Senior Staff Dormitory - 1</td> <td style="text-align: right;">4,816.32</td> </tr> <tr> <td>Total:</td> <td style="text-align: right;"><u>39,722.47</u></td> </tr> </tbody> </table>	Building	GFA (sq.m.)	Factory Nos. 1 & 2	3,641.58	Factory No. 10	4,521.57	Factory No. 11	5,865.88	Factory No. 12	5,450.18	Warehouse	3,180.00	Warehouse	2,296.00	Dormitory No. 5	2,397.68	Dormitory No. 6	1,798.26	Senior Staff Dormitory	5,755.00	Senior Staff Dormitory - 1	4,816.32	Total:	<u>39,722.47</u>	<p>The property is occupied by the Group for production, storage, ancillary office and other ancillary uses.</p> <p>Factories X1 and X2 have been let by the Group to an intra-group tenant at a monthly rent of RMB9/sq.m. for a term expiring on 31 December 2009 for production use.</p> <p>Factory Nos. 3 &amp; 4 have been let by the Group to a third party tenant at a monthly rent of RMB9/sq.m. for a term expiring on 31 December 2009 for production use.</p> <p>Factory Nos. 7, 8 and 9 and Dormitory No. 7 have been let by the Group to a third party tenant at a monthly rent of RMB46,800 expiring on 31 January 2009 with 3 rent-free periods from 1 December 2004 to 31 December 2004, from 1 December 2005 to 31 December 2005 and from 1 December 2006 to 31 December 2006 for industrial use.</p>	<p>293,800,000 (100% interest attributable to the Group: 293,800,000)</p>
Building	GFA (sq.m.)																											
Factory Nos. 1 & 2	3,641.58																											
Factory No. 10	4,521.57																											
Factory No. 11	5,865.88																											
Factory No. 12	5,450.18																											
Warehouse	3,180.00																											
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Senior Staff Dormitory - 1	4,816.32																											
Total:	<u>39,722.47</u>																											

**APPENDIX IV**
**PROPERTY VALUATION**

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2007 HK\$
		<b>Leased Portion:</b>		
		<b>Building</b>	<b>GFA (sq.m.)</b>	
		Factory X1	4,490.25	
		Factory X2	1,257.84	
		Factory Nos. 3 & 4	2,957.55	
		Factory Nos. 5 & 6	2,957.55	
		Factory Nos. 7, 8 & 9	5,809.28	
		Dormitory No. 7	2,381.57	
		Total:	<u>19,854.04</u>	
		The land use rights of the property have been granted with the latest term expiring on 17 August 2055.		

*Notes :*

- Pursuant to a Real Estate Transfer Agreement (房地產轉讓協議書) entered into between Dongguan City Bi Sheng Da Biological and Environmental Protection Engineering Limited (東莞市碧勝達生物環保工程有限公司) (the “vendor”) and Global Cosmetics (China) Company Limited (高寶化妝品(中國)有限公司) (the “Global Cosmetics (China)”) dated 13 September 2004, the vendor agreed to transfer the land use rights of the property with a total site area of approximately 59,473.30 sq.m., including the buildings and structures erected thereon as at the date of the agreement at a consideration of RMB113,100,000.
- Pursuant to 3 State-owned Land Use Rights Certificates (國有土地使用證) issued by the People’s Government of Dongguan City (東莞市人民政府) dated between 17 May 2005 and 16 September 2005, the land use rights of the property with a total site area of approximately 54,398.41 sq.m. have been granted to Global Cosmetics (China) for a term expiring on between 5 April 2055 and 17 August 2055 for industrial use. The details of which are summarized as below:

No.	Document No.	Date of Issue	Site Area (sq.m.)
1.	Dong Fu Guo Yong (2005) Di No. Te 507	17 May 2005	12,643.80
2.	Dong Fu Guo Yong (2005) Di No. Te 508	17 May 2005	18,035.61
3.	Dong Fu Guo Yong (2005) Di No. Te 1215	16 September 2005	23,719.00
		Total:	<u>54,398.41</u>

- Pursuant to 3 Construction Land Planning Permits (建設用地規劃許可證) issued by Dongguan City Planning Bureau (東莞市城建規劃局) dated between 23 March 2005 and 31 October 2005, Global Cosmetics (China) was permitted to develop factory and dormitory buildings on 3 land parcels with a total site area of approximately 60,304.00 sq.m. The details of which are summarised as below:

No.	Document No.	Date of Issue	Site Area (sq.m.)
1.	2005-23-10012	23 March 2005	18,290.00
2.	2005-23-10013	23 March 2005	13,218.70
3.	2005-23-10033	31 October 2005	28,795.30
		Total:	<u>60,304.00</u>

4. Pursuant to 14 Construction Project Planning Permits (建設工程規劃許可證) issued by Dongguan City Planning Bureau (東莞市城規劃局) dated between 7 June 2005 and 31 January 2007, Global Cosmetics (China) was permitted to develop factories, warehouses and dormitories with a total GFA of approximately 50,217.70 sq.m. The details of which are summarised as below:

No.	Document No.	Date of Issue	Building Name	GFA (sq.m.)
1.	2006-23-235	17 January 2006	Factory Nos. 1 & 2	3,522.79
2.	2006-23-984	4 May 2006	Factory Nos. 5 & 6	2,716.22
3.	2006-23-8623	4 July 2006	Factory No. 10	4,711.23
4.	2006-23-8624	4 July 2006	Factory No. 11	5,865.36
5.	2005-23-15631	7 June 2005	Factory No. 12	5,072.42
6.	2005-23-15815	8 August 2005	Warehouse	3,183.00
7.	2007-23-125	31 January 2007	Warehouse	2,296.00
8.	2006-23-10333	19 July 2006	Dormitory No. 5	2,173.52
9.	2005-23-10334	19 July 2006	Dormitory No. 6	1,630.14
10.	2006-23-1004	11 May 2006	Senior Staff Dormitory	5,755.00
11.	2006-23-19377	29 December 2006	Senior Staff Dormitory-1	4,743.00
12.	2005-23-20064	31 October 2005	Factory X1	4,490.25
13.	2005-23-20063	31 October 2005	Factory X2	1,257.84
14.	2006-23-983	4 May 2006	Factory Nos. 3 & 4	<u>2,800.93</u>
Total:				<u>50,217.70</u>

5. Pursuant to 14 Construction Project Commencement Permits (建築工程施工許可證) issued by Dongguan City Construction Bureau (東莞市建設局) dated between 4 July 2005 and 21 March 2007, Global Cosmetics (China) was permitted to construct factories, warehouses and dormitories with a total GFA of approximately 50,217.70 sq.m. The details of which are summarised as below:

No.	Document No.	Date of Issue	Building Name	GFA (sq.m.)
1.	441900200602130958	13 February 2006	Factory Nos. 1 & 2	3,522.79
2.	441900200606221054	22 June 2006	Factory Nos. 5 & 6	2,716.22
3.	441900200608011423	1 August 2006	Factory No. 10	4,711.23
4.	441900200608011424	1 August 2006	Factory No. 11	5,865.36
5.	441900200507041010	4 July 2005	Factory No. 12	5,072.42
6.	441900200509051113	5 September 2005	Warehouse	3,183.00
7.	441900200703210401	21 March 2007	Warehouse	2,296.00
8.	441900200608161522	16 August 2006	Dormitory No. 5	2,173.52
9.	441900200608161523	16 August 2006	Dormitory No. 6	1,630.14
10.	441900200610091845	9 October 2006	Senior Staff Dormitory	5,755.00
11.	441900200701080125	8 January 2007	Senior Staff Dormitory-1	4,743.00
12.	441900200512091301	9 December 2005	Factory X1	4,490.25
13.	441900200512091302	9 December 2005	Factory X2	1,257.84
14.	441900200606011053	1 June 2006	Factory Nos. 3 & 4	<u>2,800.93</u>
Total:				<u>50,217.70</u>

6. Pursuant to 16 Dongguan City Building Construction Project and City Administration Infrastructure Facilities Construction Completion Certificates (東莞市房屋建築工程和市政基礎設施工程竣工驗收備案證書) issued by Dongguan City Construction Bureau (東莞市建設局) dated between 15 May 2007 and 18 September 2007, the 21 buildings with a total GFA of approximately 58,408.55 sq.m. were certified for completion by Shenzhen Geotechnical Investigation and Surveying Institute (深圳市勘察測繪院). The details of which are summarised as below:

No.	Document No.	Date of Issue	Building Name	GFA (sq.m.)
1.	Jian Bei Zheng Zi Di No. 441900200706140029	20 June 2007	Factory Nos. 1 & 2	3,522.79
2.	Jian Bei Zheng Zi Di No. 441900200706140034	20 June 2007	Factory Nos. 5 & 6	2,716.22
3.	Jian Bei Zheng Zi Di No. 441900200706140047	26 June 2007	Factory No. 10	4,711.23
4.	Jian Bei Zheng Zi Di No. 441900200706140048	26 June 2007	Factory No. 11	5,865.36
5.	Jian Bei Zheng Zi Di No. 441900200706140013	15 June 2007	Factory No. 12	5,072.42
6.	Jian Bei Zheng Zi Di No. 441900200706140012	15 June 2007	Warehouse	3,183.00
7.	Jian Bei Zheng Zi Di No. 441900200709040143	18 September 2007	Warehouse	2,296.00
8.	Jian Bei Zheng Zi Di No. 441900200706140019	15 June 2007	Dormitory No. 5	2,173.52
9.	Jian Bei Zheng Zi Di No. 441900200706140023	15 June 2007	Dormitory No. 6	1,630.14
10.	Jian Bei Zheng Zi Di No. 441900200706140061	29 June 2007	Senior Staff Dormitory	5,755.00
11.	Jian Bei Zheng Zi Di No. 441900200706140070	29 June 2007	Senior Staff Dormitory-1	4,743.00
12.	Jian Bei Zheng Zi Di No. 441900200705140008	15 May 2007	Factory X1	4,490.25
13.	Jian Bei Zheng Zi Di No. 441900200705140009	15 May 2007	Factory X2	1,257.84
14.	Jian Bei Zheng Zi Di No. 441900200706140033	20 June 2007	Factory Nos. 3 & 4	2,800.93
15.	Jian Bei Zheng Zi Di No. 441900200708080102	3 August 2007	Factory Nos. 7, 8 & 9	5,809.28
16.	Jian Bei Zheng Zi Di No. 441900200708080103	3 August 2007	Dormitory No. 7	2,381.57
Total:				<u>58,408.55</u>

7. Pursuant to 16 Real Estate Title Certificates (房地產權證) issued by the People's Government of Dongguan City (東莞市人民政府) dated between 6 September 2007 and 25 October 2007, the 21 buildings of the property with a total GFA of approximately 59,576.51 sq.m. are legally owned by Global Cosmetics (China). The details of which are summarized as below:

No.	Document No.	Date of Issue	Building Name	GFA (sq.m.)
1.	Yue Fang Di Zheng Zi Di No. C2401892	6 September 2007	Factory Nos. 1 & 2	3,641.58
2.	Yue Fang Di Zheng Zi Di No. C2401919	25 October 2007	Factory Nos. 5 & 6	2,957.55
3.	Yue Fang Di Zheng Zi Di No. C2401893	6 September 2007	Factory No. 10	4,521.57
4.	Yue Fang Di Zheng Zi Di No. C2401894	6 September 2007	Factory No. 11	5,865.88
5.	Yue Fang Di Zheng Zi Di No. C2401888	6 September 2007	Factory No. 12	5,450.18
6.	Yue Fang Di Zheng Zi Di No. C2401890	6 September 2007	Warehouse	3,180.00
7.	Yue Fang Di Zheng Zi Di No. C2401906	8 October 2007	Warehouse	2,296.00
8.	Yue Fang Di Zheng Zi Di No. C2401900	8 October 2007	Dormitory No. 5	2,397.68
9.	Yue Fang Di Zheng Zi Di No. C2401903	8 October 2007	Dormitory No. 6	1,798.26
10.	Yue Fang Di Zheng Zi Di No. C2401907	11 October 2007	Senior Staff Dormitory	5,755.00
11.	Yue Fang Di Zheng Zi Di No. C2401918	11 October 2007	Senior Staff Dormitory-1	4,816.32
12.	Yue Fang Di Zheng Zi Di No. C2401886	6 September 2007	Factory X1	4,490.25
13.	Yue Fang Di Zheng Zi Di No. C2401895	6 September 2007	Factory X2	1,257.84
14.	Yue Fang Di Zheng Zi Di No. C2401929	25 October 2007	Factory Nos. 3 & 4	2,957.55
15.	Yue Fang Di Zheng Zi Di No. C2401932	25 October 2007	Factory Nos. 7, 8 & 9	5,809.28
16.	Yue Fang Di Zheng Zi Di No. C2401935	25 October 2007	Dormitory No. 7	2,381.57
Total:				<u>59,576.51</u>

8. Pursuant to a tenancy agreement dated 1 September 2007, Factories X1 and X2 have been let by Global Cosmetics (China) to Dongguan Gao Bao Chemical Company Limited (東莞高寶化工有限公司), which is an intra-group tenant, at a monthly rent of RMB9 / sq.m. for a term expiring on 31 December 2009 for production use.

9. Pursuant to a tenancy agreement dated 1 September 2007, Factory Nos. 3 & 4 have been let by Global Cosmetics (China) to Dongguan Tai Li Biological Engineering Limited (東莞太力生物工程有限有限公司), which is a third party tenant, at a monthly rent of RMB9 / sq.m. for a term expiring on 31 December 2009 for production use.
10. Pursuant to a tenancy agreement dated 8 January 2004, Factory Nos. 7, 8 and 9 and Dormitory No. 7 have been let by Global Cosmetics (China) to Dongguan City Changping Zhide Metals and Plastic Products Factory (東莞市常平治德五金塑膠品廠), which is a third party tenant, at a monthly rent of RMB46,800 for a term expiring on 31 January 2009 with 3 rent-free periods from 1 December 2004 to 31 December 2004, from 1 December 2005 to 31 December 2005 and from 1 December 2006 to 31 December 2006 for industrial use.
11. Pursuant to a tenancy agreement dated 1 September 2007, Factory Nos. 5 & 6 have been let by Global Cosmetics (China) to Dongguan Bao Sheng Environmental Protection Investment Limited (東莞市寶盛環保投資有限公司), which is a third party tenant, at a monthly rent of RMB9 /sq.m. for a term expiring on 30 September 2008 for production use.
12. Pursuant to a Business Licence (營業執照), Registration No. 441900400049906, issued by Dongguan City Industrial and Commercial Administrative and Management Bureau (東莞市工商行政管理局) dated 29 October 2007, Global Cosmetics (China) was established with a registered capital of HK\$160,000,000 and was authorised to carry on the business of manufacturing and sale of cosmetics and cellulose enzyme and the retailing of the manufactured products within China and related after sale services within a period from 1 April 2004 to 31 March 2034.
13. The status of title and grant of major approvals provided by the Group is as follows:
- |   |     |
|---|-----|
| Real Estate Transfer Agreement            | Yes |
| State-owned Land Use Rights Certificates  | Yes |
| Construction Land Planning Permits        | Yes |
| Construction Project Planning Permits     | Yes |
| Construction Project Commencement Permits | Yes |
| Construction Completion Certificates      | Yes |
| Real Estate Title Certificates            | Yes |
14. The opinion given by the PRC legal adviser to the Group, Guangdong Harbour Law Firm (廣東海埠律師事務所), contains, inter alia, the following:
- The land use rights and the buildings of the property are legally vested in Global Cosmetics (China) and are protected under the relevant PRC laws and regulations;
  - All land premium, land use fees, taxes and other relevant costs have been settled in full by Global Cosmetics (China);
  - Within the term of land use rights, Global Cosmetics (China) is entitled to transfer, sub-lease, mortgage or otherwise dispose of the land use rights and the buildings of the property without payment of any additional land premium;
  - The existing uses of the property are in compliance with the prescribed uses under the relevant State-owned Land Use Rights Certificates, Construction Project Planning Permits, Construction Project Commencement Permits, Construction Completion Certificates and Real Estate Title Certificates;
  - Global Cosmetics (China) has already obtained all the State-owned Land Use Rights Certificates, Construction Project Planning Permits, Construction Project Commencement Permits, Construction Completion Certificates and Real Estate Title Certificates of the Property (except the Construction Project Planning Permits and Construction Project Commencement Permits of Factory Nos. 7, 8 & 9 and Dormitory No. 7);

- f. Global Cosmetics (China) has the rights to own, occupy, use and handle the property;
  - g. The property is not subject to mortgage, third party interests or any other material encumbrances; and
  - h. All the said tenancy agreements are legal and effective.
15. We have prepared our valuation based on the assumption that the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities.
16. Global Cosmetics (China) is an indirect wholly-owned subsidiary of the Company.



## VALUATION CERTIFICATE

## Group II — Properties rented by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2007 HK\$
2.	Office Units B, C, D and E on 34th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	<p>The property comprises 4 office units on the 34th Floor of a high-rise office tower erected on a multi-storey podium completed in 1988.</p> <p>The saleable area of the property is approximately 353.88 sq.m. (or approximately 3,809 sq.ft.)</p> <p>The property has been rented by the Group from Global Target Limited (the “landlord”) under a tenancy agreement dated 1 August 2007 for a term of 1 year from 1 July 2007 to 30 June 2008 at a monthly rent of HK\$240,000. Management fees, rates, half share of government rent and all other expenses including gas, water, electricity, air-conditioning and telephone are all payable by the Group.</p> <p>The property is permitted to be occupied for office use under the tenancy agreement.</p>	The property is occupied by the Group for office use.	No Commercial Value

*Note:*

The tenant of the property is Global Chemical Investment Limited, which is a direct wholly-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2007 HK\$
3.	Office Unit 3301 on 33rd Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	<p>The property comprises an office unit on the 33rd Floor of a high-rise office tower erected on a multi-storey podium completed in 1988.</p> <p>The saleable area of the property is approximately 216.46 sq.m. (or approximately 2,330 sq.ft.)</p> <p>The property has been rented by the Group from Happy Summit Limited (the "landlord") under a tenancy agreement dated 23 April 2007 for a term of 1 year from 1 April 2007 to 31 March 2008 at a monthly rent of HK\$125,000. Management fees, rates, half share of government rent and all other expenses including gas, water, electricity, air-conditioning and telephone are all payable by the Group.</p> <p>The property is permitted to be occupied for office use under the tenancy agreement.</p>	The property is occupied by the Group for office use.	No Commercial Value

*Note:*

The tenant of the property is Global Cosmetics (HK) Company Limited (高寶化妝品(香港)有限公司), which is an indirect wholly-owned subsidiary of the Company.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2007 HK\$
4.	Workshop Unit 16 on 10th Floor, Vanta Industrial Centre, Nos. 21-33 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong	<p>The property comprises an industrial unit on the 10th Floor of a high-rise industrial building completed in 1988.</p> <p>The saleable area of the property is approximately 174.23 sq.m. (or approximately 1,875 sq.ft.)</p> <p>The property has been rented by the Group from Jubilee Ocean Ltd. (the "landlord") under a tenancy agreement dated 4 June 2007 for a term of 1 year from 1 April 2007 to 31 March 2008 at a monthly rent of HK\$13,500. Management fees, rates and government rent are all payable by the landlord. All other expenses including water, electricity, cleaning are all payable by the Group.</p> <p>The property is permitted to be occupied for industrial use under the tenancy agreement.</p>	The property is occupied by the Group for warehouse use.	No Commercial Value

*Note:*

The tenant of the property is Global Cosmetics (HK) Company Limited (高寶化妝品(香港)有限公司), which is an indirect wholly-owned subsidiary of the Company.

## VALUATION CERTIFICATE

## Group III — Property rented by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2007 HK\$								
5.	Portions of 2 buildings erected thereon a land parcel located at Tu Tang Village, Chang Ping Town, Dongguan City, Guangdong Province, the PRC	<p>The property comprises 2 portions of 2 buildings, which are known as “Proamine Plant” and “Canteen” respectively, erected on a parcel of land with a site area of approximately 71,785.00 sq.m. They were completed in 2003.</p> <p>The total gross floor area (“GFA”) of the property is approximately 2,936.06 sq.m. Details of which are listed as below:</p> <table border="1"> <thead> <tr> <th>Building</th> <th>GFA (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Portion of “Proamine Plant”</td> <td>1,920.00</td> </tr> <tr> <td>Portion of “Canteen”</td> <td>1,016.06</td> </tr> <tr> <td>Total:</td> <td><u>2,936.06</u></td> </tr> </tbody> </table> <p>The property has been rented by the Group from Dongguan Proamine Chemical Co., Limited (東莞寶麗美化工有限公司) under a rights of use agreement and a supplementary agreement dated 1 September 2007 and 12 November 2007 respectively. It is subject to a term expiring on the 12th month after the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited for “Proamine Plant” and the sewage disposal system and 31 December 2009 for “Canteen”. The annual rents of the property are RMB105,698, RMB299,820 and RMB109,734 in 2007, 2008 and 2009 respectively.</p> <p>The property is permitted to be occupied for production and meal-supply uses under the rights of use agreement and the supplementary agreement.</p>	Building	GFA (sq.m.)	Portion of “Proamine Plant”	1,920.00	Portion of “Canteen”	1,016.06	Total:	<u>2,936.06</u>	The property is occupied by the Group for production and meal-supply uses.	No Commercial Value
Building	GFA (sq.m.)											
Portion of “Proamine Plant”	1,920.00											
Portion of “Canteen”	1,016.06											
Total:	<u>2,936.06</u>											

*Notes:*

- Referring to the opinion given by the PRC legal adviser to the Group, Guangdong Harbour Law Firm (廣東海埠律師事務所), the said rights of use agreement and supplementary agreement are effectual and enforceable and do not violate any laws and rules.
- The tenant of the property is Global Cosmetics (China) Company Limited (高寶化妝品(中國)有限公司), which is an indirect wholly-owned subsidiary of the Company.

## **APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW**

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

### **1. MEMORANDUM OF ASSOCIATION**

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in Appendix VII to this Prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

### **2. ARTICLES OF ASSOCIATION**

The articles of association of the Company (the "Articles") were adopted on 15 November 2007. The following is a summary of certain provisions of the Articles.

#### **(a) Directors**

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

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

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

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

<b>APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW</b>
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(iii) *Compensation or payments for loss of office*

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

(iv) *Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) *Financial assistance to purchase shares of the Company or its holdings company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) *Conflict of interests and Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the

<p style="text-align: center;"><b>APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW</b></p>
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shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

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

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his associate(s) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his associate(s) has himself/themselves guaranteed or secured in whole or in part;

<b>APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW</b>
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- (cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, other than a company in which the Director or his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company;
- (gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit; and



<b>APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW</b>
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- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to the Articles.

In addition, it is provided in our Articles of Association that any such Director shall excuse himself from any meeting or part of any meeting of the Board and shall not participate in any discussions in respect of any resolutions where any contract or arrangement or other proposal in which he or any of his associates is materially interested is discussed or resolved, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by the remaining Directors.

(vii) *Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

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The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

*(viii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations

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and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.*

(x) *Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

**(b) Alterations to constitutive documents**

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

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(c) **Alterations of capital**

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub divided may determine that, as between the holders of the shares resulting from such sub division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

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

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions majority required**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

**(f) Voting rights and right to demand a poll**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a shareholder which is a clearing house (as defined in the Articles) (or its nominees), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

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At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules (as defined in the Articles) or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) for the time being entitled to vote at the meeting; or (iii) by any member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and representing not less than one tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right; or (v) if required by the Listing Rules (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation.

**(g) Requirements for annual general meetings**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

**(h) Accounts and audit**

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

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The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

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

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by giving at least 21 days' notice in writing and any other



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extraordinary general meeting shall be called by giving at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.



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The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

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

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

**(l) Power of any subsidiary to own securities in the Company**

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

**(m) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully

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paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

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

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting where voting is by a show of hands or by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o) Corporate representatives**

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a show of hands and on a poll on any resolution put at such meeting.

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**(p) Calls on shares and forfeiture of shares**

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

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

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

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

**(q) Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 32) of the laws of Hong Kong.

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(r) **Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) **Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

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

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

(u) **Procedures on liquidation**

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as

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between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

**(v) Untraceable members**

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w) Stock**

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

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**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

**3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION**

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

**4. CAYMAN ISLANDS COMPANIES LAW**

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

**(a) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

<b>APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW</b>
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- (iii) in redeeming or purchasing its shares as provided in the Companies Law;
- (iv) in writing off:
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (v) in providing for the premium payable on redemption of any shares or of any debentures of the company.

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

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

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

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless

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immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

**(d) Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

**(e) Protection of minorities**

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

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

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

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



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**(f) Management**

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

**(g) Accounting and auditing requirements**

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h) Exchange control**

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

**(i) Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j) Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k) Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

<p style="text-align: center;"><b>APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW</b></p>
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Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(1) Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum of association expires, or the event occurs on the occurrence of which the memorandum of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

**FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on 7 June 2007 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares. On 7 June 2007, one Share was allotted and issued, nil paid, to Codan Trust Company (Cayman) Limited, which was transferred to the Parent Company on the same date. The said one nil paid Share was subsequently paid up in the manner described in paragraph 4 below.

As our Company is incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a memorandum of association and articles of association. A summary of the relevant laws and regulations of the Cayman Islands and our Company's constitution is set out in Appendix V to this prospectus.

**2. Changes in share capital of our Company***(a) Increase in authorised share capital*

Pursuant to a resolution in writing passed by our then sole Shareholder on 30 June 2007, the authorised share capital of our Company was increased from HK\$100,000 to HK\$2,000,000,000 by the creation of a further 19,999,000,000 Shares.

On 7 August 2007, a preference share instrument was executed by the Company pursuant to which 91,500 REPS with an aggregate par value of approximately US\$21 million were issued to the Pre-IPO Investor.

Immediately following the completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK\$2,000,000,000 divided into 20,000,000,000 Shares, of which 1,300,000,000 Shares will be issued fully paid or credited as fully paid, and 18,700,000,000 Shares will remain unissued. Other than pursuant to the exercise of the options which may be granted under the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this paragraph and in paragraphs 1 and 4 in this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

*(b) Founder shares*

We have no founder shares, management shares or deferred shares.

**3. Resolutions in writing of the Shareholders passed on 15 November 2007**

By resolutions in writing of the Shareholders passed on 15 November 2007:

- (a) we adopted our existing Articles of Association;
- (b) conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of those agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
  - (i) the Global Offering was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and the transfer of Sale Shares (including the Shares to be transferred by Cristal Marketing upon the exercise of the Over-allotment Option) was approved;
  - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
  - (iii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to allot and issue a total of 874,999,999 Shares credited as fully paid at par to the holders of Shares whose names appear on the register of members of our Company at the close of business on 8 December 2007 or such other date as shall be determined by the Directors (or as they may direct) in proportion to their then existing respective shareholdings (save that no Shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of capitalisation of the sum of HK\$87,499,999.90 standing to the credit of the share premium account of our Company, and the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
  - (iv) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with our articles of association, or upon the exercise of any options which may be granted under the Share Option Scheme or under the Global Offering or the Capitalisation Issue, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue; and (bb) the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our

Company, or the date by which the next annual general meeting of our Company is required by our Articles of Association or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever is the earliest; and

- (v) a general unconditional mandate (“Repurchase Mandate”) was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue; until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by our Articles of Association or any applicable law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever is the earliest.

#### 4. Corporate reorganisation

We underwent a reorganisation to rationalise our structure in preparation for the listing of the Shares on the Stock Exchange. The reorganisation involved:

- (a) On 5 March 2007, Global Success nominated Global Chemical (BVI) to act as the transferee of the transfer by Cristal Marketing of 6,800,000 shares of HK\$1 each in the issued share capital of Global Cosmetics (HK) (being 17% of the entire issued share capital of Global Cosmetics (HK)) for a consideration of HK\$241,090,000.
- (b) On 6 June 2007, Global Chemicals (China) transferred the beneficial interest of 10,000 shares of HK\$1 each in the issued share capital of High Billion (being the entire issued share capital of High Billion) to Global Chemical (BVI) in consideration of the allotment and issuance of 1 share in the share capital of Global Chemical (BVI), credited as fully paid, to Global Success (as directed by Global Chemicals (China)).
- (c) On 8 June 2007, the Parent Company transferred an aggregate of 800 shares of 10 euros each in the share capital of Global Cosmetics (France) (being the entire share capital of Global Cosmetics (France)) to Global Chemical (BVI) in cash consideration of 8,000 euros.
- (d) On 30 June 2007, Global Success transferred 101 shares of US\$1 in the share capital of Global Chemical (BVI) (being the entire issued share capital of Global Chemical (BVI)) to the Company in consideration of (i) the allotment and issuance of 90,849,999 Shares in the share capital of the Company, credited as fully paid, to the Parent Company (as directed by Global Success); and (ii) the Company crediting as fully paid the 1 nil-paid Share held by the Parent Company.
- (e) On 6 August 2007, the Parent Group assigned to our Company certain loans in the aggregate net sum of HK\$480,026,048 due from our Group to the Parent Group in consideration of our Company allotting and issuing one Share in the share capital of the Company, credited as fully paid, to the Parent Company.

- (f) By an agreement dated 30 September 2007 (and supplemented by an agreement dated 8 October 2007), Global Cosmetics (China) acquired from Dongguan Gao Bao at a total cash consideration of approximately RMB29,627,000 certain plant and machinery and motor vehicles, which represented all those plant and machinery and motor vehicles that generated all the revenue for the Cosmetics Business Branches during the Track Record Period, and the consideration was determined based on the net book value of those plant and machinery and motor vehicles as at 30 September 2007.
- (g) On 29 October 2007, Cristal Marketing transferred 5,200,000 shares of HK\$1 each held by it in the share capital of Global Cosmetics (HK) (being 13% of the entire issued share capital of Global Cosmetics (HK)) to Global Chemical (BVI) in consideration of the transfer of 13,936,390 Shares by the Parent Company to Cristal Marketing.

## 5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report set out in Appendix I to this prospectus.

The following alterations in the share capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

### *Global Chemical (BVI)*

- (a) On 6 June 2007, Global Chemical (BVI) allotted and issued at par 1 share of US\$1 each in its share capital to Global Success (as directed by Global Chemicals (China)) in consideration of the transfer of the entire beneficial interest in High Billion by Global Chemicals (China) to Global Chemical (BVI).

### *Globe Wealthy*

- (b) On 25 May 2006, Globe Wealthy allotted and issued at par 1 share of US\$1 each in its share capital to Global Chemical (BVI).

## 6. Further information about our establishments in the PRC

We have interests in the registered capital of one company established in the PRC. A summary of the corporate information of such company is set out as follows:

Name:	Global Cosmetics (China)
Date of establishment:	1 April 2004
Place of incorporation:	PRC
Nature:	Wholly foreign owned enterprise

Registered office:	Tu Tang Industrial Park, Chang Ping Town, Dongguan City, Guangdong Province, PRC (中國廣東省東莞市常平鎮土塘工業區)
Term:	1 April 2004 to 31 March 2034
Total investment:	HK\$300,000,000
Registered capital:	HK\$160,000,000
Paid-up capital:	HK\$160,000,000
Equity holder:	Global Cosmetics (HK)
Attributable interest of our Company:	100%
Scope of business:	Manufacture and sale of cosmetics products and enzymes; selling in shops within the country of products manufactured by itself which are for domestic sale and provision of related after-sales service (生產和銷售化妝品、纖維素酶; 生產的內銷自產產品在國內店鋪銷售,並提供相關的售後服務。)
Directors:	Judy Lau Lui Wai Mui Grace Lau Ru Dong
Legal representative:	Judy Lau

## 7. Repurchase by our Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

### (a) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Main Board must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by the Shareholders on 15 November 2007, the Repurchase Mandate was given to our Directors authorising any repurchase by us of Shares on the Main Board or any other stock exchange on which the securities of our Company may be listed and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by our articles of association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) *Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with our articles of association and the Cayman Companies Law. A listed company may not repurchase its own securities on the Main Board for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by our articles of association and subject to the Cayman Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of profits or the share premium account of our Company or, if authorised by our articles of association and subject to the Cayman Companies Law, out of capital.

(c) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with our articles of association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(e) *General*

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.



If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers ("Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) of our Company has notified us that he has a present intention to sell Shares to us, or has undertaken not to do so if the Repurchase Mandate is exercised.

#### **8. Registration under Part XI of the Hong Kong Companies Ordinance**

We have established a principal place of business in Hong Kong for the purpose of registration under Part XI of the Hong Kong Companies Ordinance at 3301, 3401-06, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. We have been registered as an overseas company under Part XI of the Hong Kong Companies Ordinance. Ms. Wong Wai Kwan Connie has been appointed as agent of the Company for the acceptance of service of process in Hong Kong.

#### **FURTHER INFORMATION ABOUT THE BUSINESS**

##### **9. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:




- (a) an agreement dated 8 June 2007 entered into between the Parent Company as vendor and Global Chemical (BVI) as purchaser with respect of the acquisition of 800 shares of 10 euros each in Global Cosmetics (France) in cash consideration of 8,000 euros;
- (b) an agreement dated 30 June 2007 entered into between the Company as purchaser, Global Success as vendor and the Parent Company as warrantor whereby Global Success agreed to transfer 101 shares of US\$1 each in the issued share capital of Global Chemical (BVI) held by it to the Company in consideration of the Company issuing 90,849,999 Shares to the Parent Company (as directed by Global Success) and crediting as fully paid the 1 nil-paid Share held by the Parent Company;
- (c) an agreement dated 3 July 2007 entered into between our Company as issuer, the Pre-IPO Investor as subscriber and the Parent Company as guarantor in relation to the subscription of REPS with an aggregate par value of approximately US\$21,000,000;

- (d) a loan assignment dated 6 August 2007 entered into between the Parent Company, Global Success, Global Chemicals (China), GCC Finance Company Limited, Global Power and Energy Company Limited, the Company, Global Chemical (BVI), Global Idea and High Billion in relation to, among other things, the assignment by the Parent Company, Global Success, Global Chemicals (China) and Global Power and Energy Company Limited to the Company of certain loans in the aggregate net sum of HK\$480,026,048 due from Global Chemical (BVI), Global Idea and High Billion in consideration of the allotment and issue by the Company of one share of the Company (credited as fully paid) to the Parent Company;
- (e) an agreement dated 16 August 2007 entered into between Cristal Marketing as vendor, Global Chemical (BVI) as purchaser and the Parent Company with respect of the acquisition of 5,200,000 shares of HK\$1 each (representing 13% of the entire issued share capital) in Global Cosmetics (HK) in consideration of the Parent Company transferring 13,936,390 Shares to Cristal Marketing;
- (f) an agreement dated 30 September 2007 (as amended and supplemented by a supplemental agreement dated 8 October 2007) made between Dongguan Gao Bao as vendor and Global Cosmetics (China) as purchaser in relation to the acquisition of certain plant and machinery and motor vehicle at a total cash consideration of approximately RMB29,627,000;
- (g) a corporate placing agreement dated 2 November 2007 and entered into between the Company, Chow Tai Fook Nominee Limited and Global Coordinator pursuant to which Chow Tai Fook Nominee Limited has agreed to purchase a number of Shares that may be purchased at the Offer Price with US\$10 million;
- (h) a corporate placing agreement dated 8 November 2007 and entered into between the Company, World Fund Pte. Limited and Global Coordinator pursuant to which World Fund Pte. Limited has agreed to purchase a number of Shares that may be purchased at the Offer Price with US\$10 million;
- (i) a deed of non-competition dated 15 November 2007 executed by the Parent Company as covenantor in favour of the Company (for itself and on behalf of its subsidiaries), details of which are set out in the paragraph headed “Non-competition undertaking” in the section headed “Relationship with Controlling Shareholder” in this prospectus;
- (j) a deed of indemnity dated 15 November 2007 executed by the Parent Company in favor of us and our subsidiaries stated therein containing the indemnities more particularly referred to in paragraph 16 in this Appendix; and
- (k) the Hong Kong Underwriting Agreement.

## 10. Intellectual property

*Trademarks*








As at the Latest Practicable Date, we were the legal and beneficial owner of the following trademarks:

<u>Trademark</u>	<u>Place of registration</u>	<u>Class</u>	<u>Registration number</u>	<u>Registration date</u>	<u>Expiry date</u>
A 	Hong Kong	3 (Note 1)	300331406	3 December 2004	2 December 2014
B 					
Marjorie Bertagne	PRC	3 (Note 2)	3049861	14 April 2003	13 April 2013
曼诗贝丹	PRC	3 (Note 3)	3058211	7 April 2003	6 April 2013
	France	3	023185533	26 September 2002 (Note 4)	26 September 2012

*Notes:*

1. The goods covered under this application in Class 3 are cosmetics, soaps, perfumery, essential oils; cleansers, moisturisers, toners, oils, serums, lotions, creams and gels for the body, face and hands; facial masks; make-up, lipsticks, lip-glosses, eye shadows, mascara, blush, face powder, foundation for the face; sunscreen preparations.
2. The goods covered under this application in Class 3 are cosmetics, soap, face cleansing milk, detergent, cleaning preparations, washing liquid, cosmetics for animals, perfumery, shower gel, fabric softeners (for washing clothes).
3. The goods covered under this application in Class 3 are cosmetics, cosmetics for animals, softeners, washing powder, essential oils, shoe polish, shower gel, detergent, cleaning preparations, skincare products.
4. The trademark was transferred by Global Chemicals (China) and registered on 26 July 2007.

As at the Latest Practicable Date, we have applied for registration of the following material trademarks, the registration of which are still pending:

Trademark	Place of application	Class	Application Date	Application number
<sup>A</sup> MB2 <sup>B</sup> MB2	Hong Kong	3	16 July 2007	300913176
<sup>A</sup> MB <sup>II</sup> <sup>B</sup> MB <sup>II</sup>	Hong Kong	3	16 July 2007	300913202
<sup>A</sup> MB-II <sup>B</sup> MB-II	Hong Kong	3	16 July 2007	300913211
<sup>A</sup>  <sup>B</sup> 	Hong Kong	3	20 November 2007	300996418
<sup>A</sup>  <sup>B</sup> 	Hong Kong	3	20 November 2007	300996427
Marjone Bertagne 	PRC	3	21 May 2007	6060954
曼诗贝丹-II	PRC	3	21 May 2007	6060955
	European Union	3	13 March 2007	005755061
	European Union	3	30 July 2007	006151302
ENVÍTA	European Union	3	30 July 2007	006151435

*Patent*

As at the Latest Practicable Date, we have applied for registration of the following patent:

<b>Patent</b>	<b>Place of application</b>	<b>Date of application</b>	<b>Publication number</b>
A kind of anti-wrinkle moisturiser and its production method	PRC	26 January 2007	2006101572751

**Domain name**

As at the Latest Practicable Date, we were the registrant of the following domain name:

<b>Domain name</b>	<b>Term</b>	<b>Expiry date</b>
www.biobeautygroup.com	3 years	22 June 2010

**11. Connected transactions and related party transactions**

Save as disclosed in this prospectus and in Note 26 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material connected transactions or related party transactions.

**FURTHER INFORMATION ABOUT OUR DIRECTORS AND SHAREHOLDERS****12. Directors***(a) Disclosure of interests of our Directors*

None of our Directors or their associates was engaged in any dealings with us during the two years preceding the date of this prospectus.

*(b) Particulars of our Directors' service contracts**Executive Directors*

Each of our executive Directors has entered into a service contract with us pursuant to which he/she agreed to act as our executive Director for an initial term of three years with effect from 1 December 2007. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless either party has given at least three months' written notice of non-renewal before the expiry of the then existing term.

Each of our executive Directors is entitled to a basic salary as set out below (subject to an annual increment after 31 December 2007 at the discretion of our Directors of not more than 10% of the annual salary immediately prior to such increase). In addition, each of our executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all our executive Directors for any financial year of our Company may not exceed 10% of our audited combined or consolidated audited net profit (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. Our executive Directors may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of our executive Directors are as follows:

<u>Name</u>	<u>Annual salary</u>
	<i>(HK\$)</i>
Ms. Judy Lau	1,800,000
Ms. Lui Wai Mui Grace	1,200,000
Ms. Wong Wai Kwan Connie	1,200,000

*Non-executive Director*

Our non-executive Director has been appointed for an initial term of two years commencing from 15 November 2007. Our non-executive Director is entitled to a director's fee of HK\$360,000 per annum.

*Independent non-executive Directors*

Each of our independent non-executive Directors has been appointed for an initial term of two years commencing from 15 November 2007. Mr. Tam Pei Qiang, Mr. Lee Tin Chak Daniel and Mr. Xie Ming Quan are entitled to a director's fee of HK\$120,000, HK\$360,000 and HK\$120,000 per annum, respectively. Save for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as our independent non-executive Director.

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) *Remuneration of our Directors*

- (i) The aggregate emoluments paid by us to our Directors in respect of the financial year ended 31 December 2006 were approximately HK\$3,810,000.
- (ii) Under the arrangements currently in force, the aggregate emoluments payable by us to our Directors (including our non-executive Director and independent non-executive Directors) for the year ending 31 December 2007, are expected to be approximately HK\$4,200,000.

(iii) None of our Directors or any past directors of any member of our group has been paid any sum of money for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our group or of any other office in connection with the management of the affairs of any member of our group.

(iv) There has been no arrangement under which our Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2006 and the six months ended 30 June 2007.

(d) *Interests and short positions of our Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering*

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules, will be as follows:

<b>Name of Director</b>	<b>Name of Company</b>	<b>Capacity/nature of interest</b>	<b>Total number of Shares</b>	<b>Approximate percentage of interest</b>
Judy Lau	Parent Company	Beneficial owner	2,500,000 options <i>(Note 1)</i>	—
Wong Wai Kwan Connie	Parent Company	Beneficial owner	25,000 shares 150,000 options <i>(Note 1)</i>	0.002% —
Lui Wai Mui Grace	Parent Company	Beneficial owner	125,000 options <i>(Note 1)</i>	—
Lau Jim Jin-wei	Parent Company	Beneficial owner	3,940,000 shares of HK\$0.1 each 540,000 warrants <i>(Note 2)</i>	0.33% —

*Notes:*

1. The options entitle the holders thereof to subscribe for one ordinary share of the Parent Company at subscription price of HK\$0.89 per share, payable in cash and subject to adjustment, at any time during the period from 20 June 2006 to 19 June 2008 (both dates inclusive).
2. The warrants entitle the holders thereof to subscribe for one ordinary share of the Parent Company at subscription price of HK\$1.3 per share, payable in cash and subject to adjustment, at any time during the period from 8 July 2005 to 7 July 2008 (both dates inclusive).

**13. Interest discloseable under the SFO and substantial shareholders**

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme), other than our Directors or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of our Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering” above, the following persons will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be expected, directly or indirectly, to be interested in 10% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our group:

<b>Shareholder</b>	<b>Nature of Interest and Capacity</b>	<b>Number of Shares</b>	<b>Approximately Percentage of Shareholding</b>
Parent Company	Beneficial owner	723,907,697	55.69%
Cristal Marketing	Beneficial owner	96,879,803 ( <i>Note 1</i> )	7.45%
Supreme China Limited	Interest in controlled corporation	96,879,803	7.45%
Pre-IPO Investor	Beneficial owner	89,212,500	6.86%

*Note 1:* 96,879,803 Shares are registered in the name of and beneficially owned by Cristal Marketing, the entire issued share capital of which is owned by Supreme China Limited whose sole shareholder is Leung Hung Fai. As Cristal Marketing will hold less than 10% of the voting power of our Company upon completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be issued pursuant to the exercise of any Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, it will not fall under the category of substantial shareholder under the Listing Rule. However, as Cristal Marketing will be interested in more than 5% of the voting shares in our Company upon completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be issued pursuant to the exercise of any Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, it will fall under the category of a substantial shareholder under the SFO.



**14. Disclaimers**

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executive of our Company) who will, immediately after completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our group;
- (b) immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme, none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or our associated corporations within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO ) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules, in each case once the Shares are listed;
- (c) none of our Directors or any of the parties listed in the paragraph headed “Qualifications of experts” in this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to us or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to us or any other member of our group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors or any of the parties listed in the paragraph headed “Qualifications of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Hong Kong Underwriting Agreement, none of the parties listed in the paragraph headed “Qualifications of experts” in this Appendix:
  - (i) is interested legally or beneficially in any securities of any member of our group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our group.

**OTHER INFORMATION****15. Share Option Schemes****(A) Share Option Scheme of our Company***(a) Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the Shareholders on 15 November 2007:

*(b) Purposes of the scheme*

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to our group. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to our group. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

*(c) Who may join*

Our Directors (which expression shall, for the purpose of this paragraph 15, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (“Invested Entity”) in which our group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our group or any Invested Entity;
- (dd) any customer of our group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to our group or any member of any Invested Entity;
- (ff) any shareholder of any member of our group or any Invested Entity or any holder of any securities issued by any member of our group or any Invested Entity;

(gg) any adviser (professional or otherwise) or consultant to any area of business or business development of our group or any Invested Entity; and

(hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of any member of our group to any person who fall within any of the above classes of participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' option as to his contribution to the development and growth of our group.

(d) *Maximum number of Shares*

(aa) The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our group must not in aggregate exceed 30% of the issued share capital of our Company from time to time.

(bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our group) to be granted under the Share Option Scheme and any other share option scheme of our group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board ("General Scheme Limit").

(cc) Subject to (aa) above but without prejudice to (dd) below, our Company may issue a circular to our Shareholders and seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our group) previously granted under the Share Option Scheme and any other share option scheme of our group will not be counted. The circular sent by us to our Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(e) *Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(f) *Grant of options to connected persons*

(aa) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates (as defined under the Listing Rules) must be approved by our independent non-executive Directors (excluding our independent non-executive Director who is the grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting. Our Company must send a circular to our Shareholders. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against

the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates must be approved by our Shareholders in general meeting.

(g) *Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(h) *Performance targets*

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(i) *Subscription price for Shares and consideration for the option*

The subscription price for Shares under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a Business Day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(j) *Ranking of Shares*

(aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the articles of association of our Company and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members ("Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared

or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.

- (bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of our Company from time to time.

(k) *Restrictions on the time of grant of options*

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of our Directors for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the last date on which our Company must publish its an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no option may be granted.

Our Directors may not grant any option to a participant who is our Director during the periods or times in which our Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(l) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(m) *Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(n) *Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with our group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(o) *Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(p) *Rights on breach of contract*

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our group by reason of the cessation of its relations with our group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

(q) *Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to



exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(r) *Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(s) *Grantee being a company wholly-owned by eligible participants*

If the grantee is a company wholly-owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly-owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(t) *Adjustments to the subscription price*

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our group as consideration in a transaction may not be regarded as



a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value, and in each case, any adjustment must be made compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(u) *Cancellation of options*

Any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by our Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(v) *Termination of the Share Option Scheme*

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) *Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

(x) *Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(aa) the expiry of the period referred to in paragraph (vi); and

(bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii).

(y) *Others*

(aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of our Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by our Shareholders in general meeting.

(z) *Present status of the Share Option Scheme*

- (i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

- (ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

- (iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

- (iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been

granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

**(B) Share option scheme of the Parent Company**

As extracted from the annual report of the Parent Company for the year ended 31 December 2006, the principal terms of its prevailing share option scheme are as follows:

(a) *Purpose*

The Parent Company operates its share option scheme (“GGT Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Parent Group’s operations.

(b) *Eligible participants*

Eligible participants of the GGT Scheme include the Parent Company’s directors, including the non-executive directors and independent non-executive directors, other employees of the Parent Group, suppliers of goods or services to the Parent Group, customers of the Parent Group, any minority shareholders of the Parent Company’s subsidiaries and any other person or entity determined by the Directors as having contributed or may contribute to the development and growth of the Parent Group.

(c) *Maximum number of issuable share options*

The maximum number of unexercised share options currently permitted to be granted under the GGT Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Parent Company in issue at any time.

(d) *Maximum entitlement of each eligible participant*

The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant under the GGT Scheme in any 12-month period is limited to 1% of the shares of the Parent Company in issue. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Parent Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Parent Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Parent Company, or to any of their associates, in excess of 0.1% of the shares of the Parent Company in issue at any time or with an aggregate value (based on the closing price of the Parent Company’s shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders’ approval in a general meeting.

(e) *Exercisable period*

The exercisable period of the share options granted is determined by the directors of the Parent Company, and commences after a certain vesting period, if any, and ends on a date which is not later than 10 years from the date of the offer. The share options which are granted and remain unexercised immediately prior to the end of the expiry date of the GGT Scheme shall continue to be exercisable in accordance with their terms of grant, notwithstanding the expiry of the GGT Scheme.

(f) *Payment on acceptance of option*

The offer of a grant of share options shall be deemed to be accepted when the acceptance letter is duly signed by the grantee and the nominal consideration for the grant of HK\$1 is received by the Parent Company within 28 days from the date of the offer.

(g) *Basis of determining the exercise price*

The exercise price of the share option is determined by the directors of the Parent Company, but not less than the highest of (i) the closing price of the Parent Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a trading day; (ii) the average closing price of the Parent Company's shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Parent Company's shares.

(h) *Remaining life of the scheme*

The GGT Scheme became effective on 20 December 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

## 16. Estate duty, tax and other indemnity

The Parent Company (the "Indemnifier") has entered into a deed of indemnity with and in favor of us (being the material contract (i) referred to in paragraph headed "Summary of material contracts" in this Appendix) to provide indemnities in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our group and/or our associated companies by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance) to any member of our group on or before the date on which the Global Offering becomes unconditional. Our Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, the BVI and the PRC.

Under the deed of indemnity, the Indemnifier has also given indemnities to our group in relation to taxation which might be payable by any member of our group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Global Offering becomes unconditional.

The deed of indemnity does not cover any claim and the Indemnifier shall be under no liability under the deed in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in our combined audited accounts of for each of the three years ended 31 December 2006 and the six months ended 30 June 2007;
- (b) to the extent that such taxation or liability falling on any of the members of our group in respect of their accounting period commencing on 1 July 2007 and ended on the date of the deed of indemnity, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any of such members (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifier, otherwise than any such act, omission or transaction:
  - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 July 2007; or
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2007 or pursuant to any statement of intention made in the prospectus; or
- (c) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our group for each of the three years 31 December 2006 and the six months ended 30 June 2007 and which is finally, established to be an over-provision or an excessive reserve in which case the Indemnifier's liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this item (d) to reduce the Indemnifier's liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

## 17. Litigation

No member of our group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our group, that would have a material adverse effect on our results of operations or financial condition.

**18. Preliminary expenses**

Our preliminary expenses are estimated to be approximately HK\$50,000 and are payable by us.

**19. Promoter**

- (a) The promoter of our Company is the Parent Company.
- (b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in sub-paragraph 19(a) above in connection with the Global Offering or the related transactions described in this prospectus

**20. Agency fees or commissions received**

Except as disclosed in the section headed “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of the Group within the two years immediately preceding the date of this Prospectus.

**21. Joint Sponsors**

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

Macquarie, as a result of the Pre-IPO Investor’s investment into the Company, is not considered independent pursuant to Rule 3A.07 of the Listing Rules.

ICEA has declared pursuant to Rule 3A.08 of the Listing Rules that it is independent pursuant to Rule 3A.07 of the Listing Rules.

Therefore, the requirement of having at least one independent sponsor in a listing application set out in Rule 3A.07 is satisfied.

**22. Qualifications of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

<u>Name</u>	<u>Qualification</u>
Macquarie	a licensed corporation by the SFC for types 1, 4 and 6 regulated activities under the SFO, acting as one of the Joint Sponsors of the Global Offering
ICEA	a licensed corporation by the SFC under transitional arrangement to conduct types 1 and 6 regulated activities under the SFO, acting as one of the Joint Sponsors of the Global Offering
Deloitte Touche Tohmatsu	Certified public accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Guangdong Harbour Law Firm	PRC lawyers
BMI Appraisals Limited	Property valuer

**23. Consents of experts**

Each of Macquarie, ICEA, Deloitte Touche Tohmatsu, Conyers Dill & Pearman, Guangdong Harbour Law Firm and BMI Appraisals Limited has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

Save as disclosed in the sections headed “History and Reorganisation” and “Underwriting” in this prospectus, none of the experts named in the paragraph headed “Qualifications of experts” in this Appendix has any shareholding interests in any member of our group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our group.

**24. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

**25. Taxation of holders of Shares**

Dealings in Shares registered on our Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

**26. Particulars of the Selling Shareholders**

<u>Name</u>	<u>Number of Sale Shares</u>	<u>Description</u>	<u>Address</u>
Parent Company	26,000,000	Corporation	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Cristal Marketing	39,000,000	Corporation	31 New Henry House 10 Ice House Street Central Hong Kong



**27. Miscellaneous**

- (a) Save as disclosed in this prospectus:
  - (i) within the two years preceding the date of this prospectus:
    - (aa) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
    - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2007 (being the date to which our latest audited combined financial statements were made up); and
  - (iv) there has not been any interruption in our business which may have or has had a significant effect on our financial position in the twelve months preceding the date of this prospectus.

<b>APPENDIX VII      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION</b>
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## **DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **white, yellow, pink** and **blue** application forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI to this prospectus, copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this prospectus, a list containing the name, address and a description of each Selling Shareholder and the statement of adjustments in arriving at the figures in the Accountants’ Report set out in Appendix I to this prospectus.

## **DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Chiu & Partners, at 41st Floor, Jardine House, 1 Connaught Place, Hong Kong during normal business hours up to and including 17 December 2007:

- (a) our memorandum and Articles of Association;
- (b) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;
- (c) the audited financial statements of each of the companies comprising our Group for each of the three years ended 31 December 2006 and the six months ended 30 June 2007 (or for the period since their respective dates of incorporation where this is a shorter period);
- (d) the letter from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letters relating to the profit forecast of our Group, the text of which are set out in Appendix III to this prospectus;
- (f) the valuation report relating to our property interests prepared by BMI Appraisals Limited, the texts of which are set out in Appendix IV to this prospectus;
- (g) the letter of advice prepared by Conyers Dill & Pearman, legal advisers to our Company as to Cayman Islands law, summarising certain aspects of Cayman Companies Law as referred to in the paragraph headed “Cayman Islands Companies Law” in Appendix V to this prospectus;
- (h) the legal opinions prepared by Guangdong Harbour Law Firm in respect of, among other things, the establishment, operation and property interests of the Group within the PRC;
- (i) the Cayman Companies Law;

<b>APPENDIX VII      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION</b>
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- (j) the rules of the Share Option Scheme;
- (k) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI to this prospectus;
- (l) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI to this prospectus;
- (m) statement of particulars of the Selling Shareholders; and
- (n) the service agreements referred to in the sub-paragraph headed “Particulars of our Directors’ service contracts” in Appendix VI to this prospectus.