
INDUSTRY OVERVIEW

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INTRODUCTION

We primarily operate in the slimming and beauty industry in the PRC, Hong Kong and Macau, with a particular focus in the PRC market. With a population of approximately 1.3 billion in the PRC, our Directors consider that the PRC slimming and beauty market has vast development potential. We also believe the performance of the PRC slimming and beauty industry has been driven by a number of factors, including the growth of the Chinese economy and the increase in per capita income of the urban households.

REPORT COMMISSIONED FROM EUROMONITOR

In connection with the Global Offering, we have engaged Euromonitor, an Independent Third Party, to conduct detailed market analysis of and provide report independent of our influence on the beauty and slimming industry in the PRC. We have relied on the Euromonitor Report in preparation of this prospectus. The aggregate contractual amount for the Euromonitor Report and services provided by Euromonitor is US\$20,000, the payment of which was not contingent upon the Listing or on any of the results obtained from the Euromonitor Report. We have not commissioned other customised reports for the purpose of inclusion in this prospectus.

The Euromonitor Report, dated 30 June 2011, consists of, among others, historical data for the period from 2005 to 2010, and forecasts for the period from 2011 to 2015. Euromonitor primarily undertook top-down central research with bottom-up intelligence to present a more comprehensive and accurate picture of body slimming market in the PRC. Euromonitor assessed relevant background information that is publicly available and compared these sources against any existing information and knowledge from us. Euromonitor also conducted trade interviews with multiple organisations for added perspective and accuracy. These organisations include slimming centres, trade associations, trade press resources, government data, and other third parties. Multiple secondary and primary sources were also checked to validate all data and information collected with no reliance on any single-source.

INDUSTRY OVERVIEW

To ensure forecast accuracy, Euromonitor adopted its standard practice of both quantitative as well as qualitative forecasts. These forecasts allow Euromonitor to establish the terms of the market size, growth trends etc on the basis of providing a comprehensive and in-depth review of the historical and future market development, while simultaneously providing cross-checking with established government or industry figures, and trade interviews, where possible.

Our Directors have reviewed the assumptions adopted by Euromonitor in preparing forecasts up to 2015 and are of the view that the assumptions are fair and reasonable.

Euromonitor, on behalf of itself, its subsidiaries and units, confirms that the Euromonitor Report was prepared in its ordinary course of business, independent of and not influenced by us, and has given and not withdrawn its consent for the Group to quote from the Euromonitor Report and to use information contained in the Euromonitor Report in this prospectus.

This prospectus contains some information extracted from the Euromonitor Report, and they are in “Summary”, “Industry Overview”, “Business” and “Financial Information” in this prospectus.

THE PRC

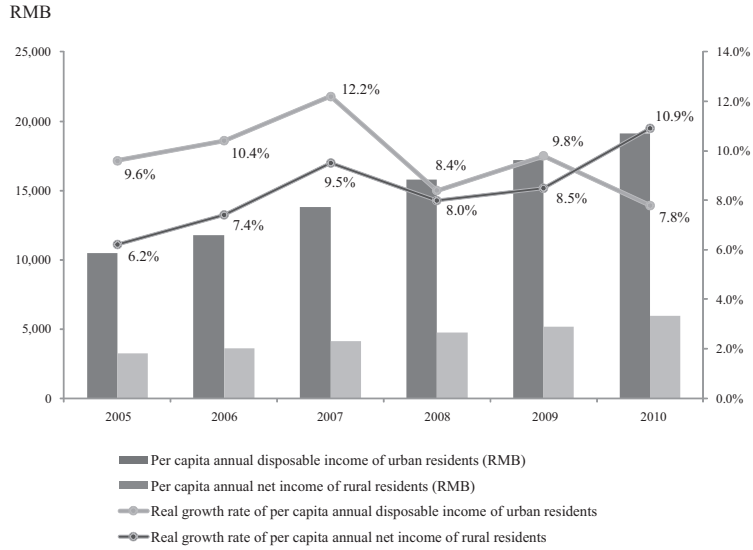
Economic Overview

From 2005 to 2007, the PRC’s GDP maintained a robust growth rate at over 10%, and the growth rate hit the historical high in 2007 at 13%. From 2008 to 2009, the PRC’s GDP growth rate dropped to about 9.0% and 8.7% respectively. The GDP growth rate for the PRC was up to about 10.3% in 2010 because of the recovery of the global economy.

The living standard of the population, particularly urban household, has also increased steadily. The increase in the disposable income growth of the urban households during the period from 2005 to 2010 shows that the purchasing power of the population in the PRC has been steadily increasing.

INDUSTRY OVERVIEW

Per capita income and growth rates of Chinese residents: Historical 2005–2010

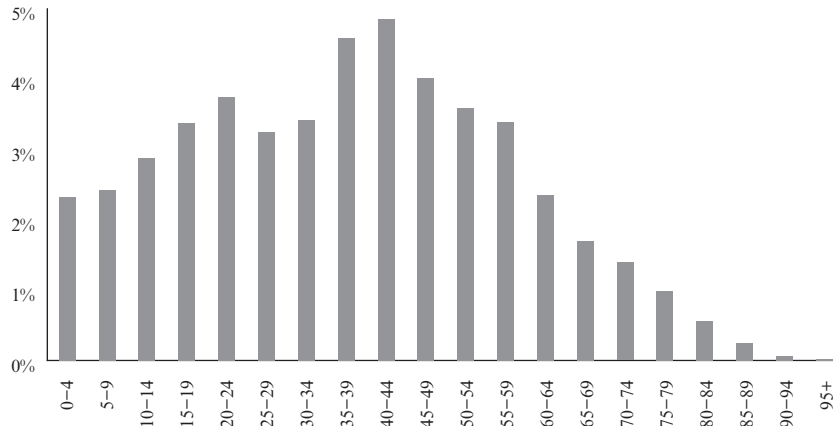


Source: National Statistics Bureau of China

Female Population

In the PRC, the age group of 44–49 accounted for the largest percentage of the female population, followed by the age group of 35–39, the age group of 45–49, the age group of 20–24 and the age group of 50–54. The five largest age groups accounted for approximately 42.3% of the total female population.

Female distribution in the PRC



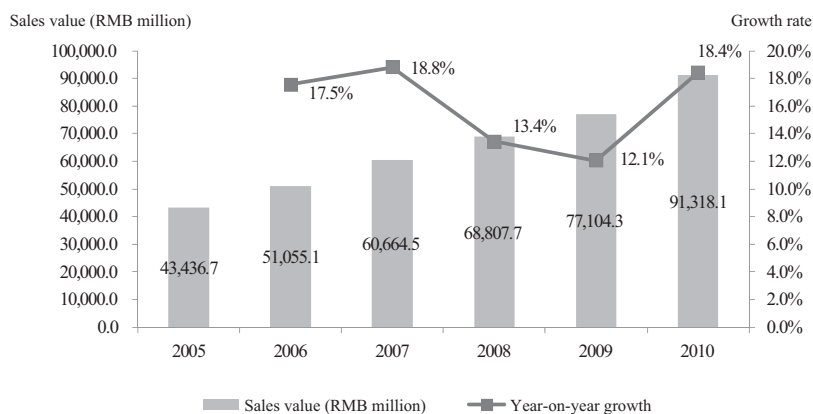
Source: National Statistics Bureau of China

THE BEAUTY AND SLIMMING INDUSTRY IN THE PRC

Market Size of Services of Beauty Centres

With the booming economy of the PRC and the rising income level of Chinese people, beauty centres in the PRC are in a fast growth stage, with a CAGR of 16.0% in sales value of services from 2005 to 2010. The total sales value of services of beauty centres reached approximately RMB91.3 billion in 2010, increasing by 18.4% over 2009.

Market size of services of beauty centres in the PRC: Historical 2005–2010



Source: Euromonitor Report

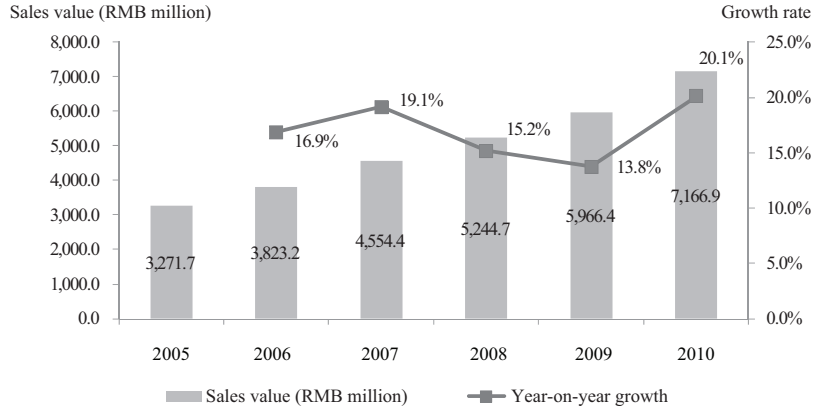
Market Size of the Body Slimming Industry

Compared with all beauty centres (including beauty salons), body shaping and slimming in the PRC is relatively young and represented approximately 7.9% of the total beauty centres by sales value of services in 2010, according to the Euromonitor Report. The share of body shaping and slimming has been increasing since 2007 due to the faster growth of body shaping and slimming when compared with that of total beauty centres.

Body shaping and slimming in the PRC was generally growing quickly from 2005 to 2010, with a CAGR of 17.0% in sales value of services. Although the growth rate slightly dropped in 2008 and 2009 due to the financial crisis that began in late 2008, the market witnessed rapid growth in 2010, with a year-on-year growth rate of 20.1% in sales value of services. This was due to the fast expansion of slimming centres and the strong demand for slimming services in the PRC. In 2010, body shaping and slimming achieved approximately RMB7.2 billion in sales value of services, compared to RMB6.0 billion in 2009.

INDUSTRY OVERVIEW

Market size of body slimming industry in the PRC: Historical 2005–2010



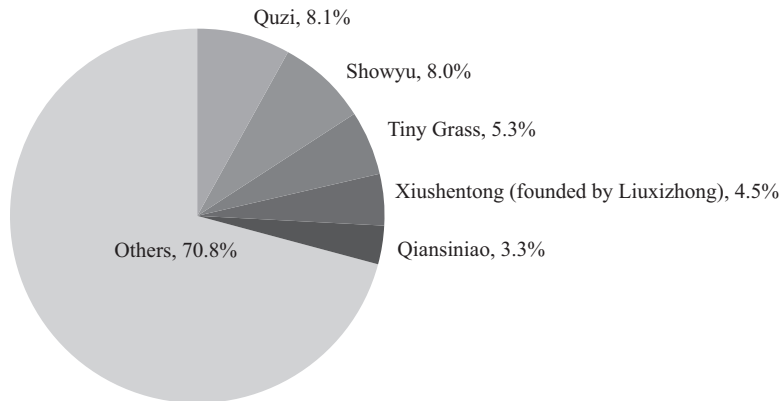
Source: Euromonitor Report

Competition

Market shares of top five brands

The body shaping and slimming market in the PRC is rather fragmented, with the top five brands representing approximately 29.2% of the total sales value of services in 2010. Currently, the market is still lacking national leading brands with high brand awareness, wide geographic coverage and large market share. Quzi is the top brand with an 8.1% market share, followed by Showyu and Tiny Grass with 8.0% and 5.3% market shares respectively. Most of the brands in the market are still concentrated on particular regions.

Market shares of top five body shaping and slimming brands in the PRC



Source: Euromonitor Report

INDUSTRY OVERVIEW

Market positioning of leading operators

Most of the body shaping and slimming brands in the PRC are mass brands, targeting consumers with a low to middle income level and priced at below RMB5,000 per course of treatment. All top five brands are mass brands. However, with the rising income level of the PRC consumers, more and more premium brands (mostly foreign brands) such as our Group are entering the PRC market. These premium brands are targeting consumers with high income levels and usually priced at above RMB5,000 per course of treatment. Premium brands (currently dominated by foreign brands) are expected to gain more shares from mass brands due to the overall trend of consumers shifting towards premium products in the PRC, according to the Euromonitor Report.

Competitive landscape of our Group

Our Directors believe that we are competitive and differentiate from our major competitors in the PRC market in the following aspects:

1. Pricing

According to the Euromonitor Report, most of the body shaping and slimming brands, including the top five brands in the PRC are mass brands and body shaping and slimming market in the PRC is currently denominated by local brands. Premium brands (mostly foreign brands) including our brand “Perfect Shape 必瘦站” are targeting consumers with high income levels and usually priced at above RMB5,000 per course of treatment. Moreover, premium brands can afford high marketing expenses with celebrity endorsement, which are more easily recognised by consumers and are perceived as more reliable.

2. Services characteristics

According to the Euromonitor Report, traditional Chinese acupuncture and massage have been widely used by local slimming centres as a method for slimming and shaping. We use a combination of advanced slimming and beauty equipment and massage treatment in our slimming programmes. In addition, we take pride in the provision of tailor-made slimming services. We recommend the most suitable slimming treatments to our clients based upon their goals and physical conditions, and closely monitor the progress of and follow up with each client throughout the whole slimming programme.

3. Operating environment

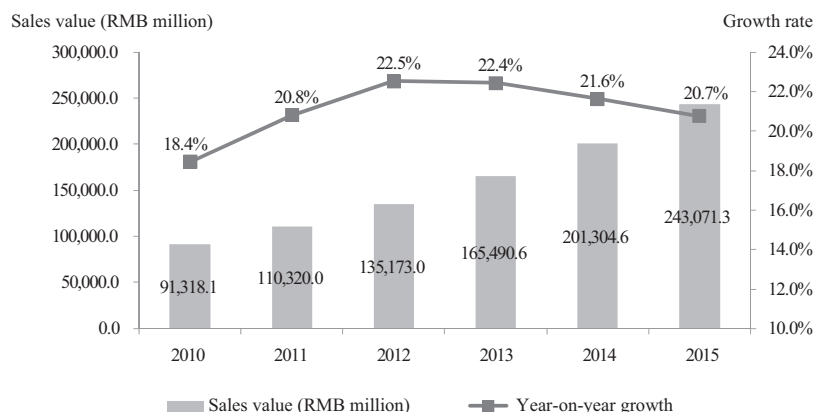
Our service centres are usually located in prime commercial districts and/or prestigious shopping malls and office buildings and/or high-end departmental stores in prime locations which are easily accessed, and are equipped with comprehensive slimming and beauty machinery to provide satisfactory services to our clients.

INDUSTRY OVERVIEW

Forecasts of Growth

The market size of beauty centres is estimated to grow from approximately RMB91.3 billion in 2010 to approximately RMB243.1 billion in 2015, with a CAGR of 21.6%, by sales value of services.

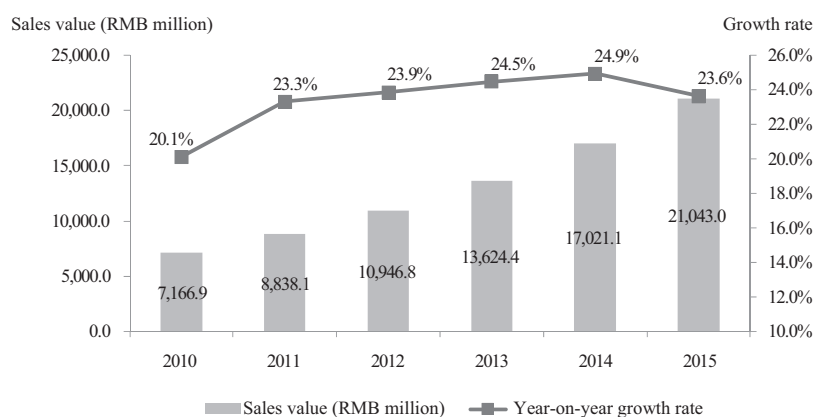
Market size of beauty industry in the PRC: Forecast 2010–2015



Source: Euromonitor Report

The share of body shaping and slimming as compared with the total beauty centres in the PRC is expected to continue to increase, and is forecast to represent approximately 8.7% of the total beauty centres by sales value of services in 2015. The sales value of services of body shaping and slimming in the PRC is estimated to increase from approximately RMB7.2 billion in 2010 to RMB21.0 billion in 2015, with a CAGR of 24.0%.

Market size of slimming centres in the PRC: Forecast 2010–2015



Source: Euromonitor Report

INDUSTRY OVERVIEW

Market trends of body slimming industry

According to the Euromonitor Report, the body shaping and slimming market in the PRC is currently dominated by local brands while foreign brands including us have been trying to expand quickly in the PRC over the last few years.

Chained slimming centres are growing faster than independent ones because chained stores have higher brand awareness, better management skills and are perceived as more reliable.

In relation to the type of slimming treatments, traditional Chinese acupuncture and massage have been widely used by local slimming centres as a method for slimming and body shaping. However, in recent years, more and more slimming centres are using both slimming machines and traditional acupuncture or massage.

Since the body slimming industry is largely fragmented, marketing may serve the purpose of bringing the brand to the clients' awareness. Celebrity endorsement is a trend, especially for premium brands that can afford high marketing expenses. Brands with celebrity endorsements are more easily recognised by consumers and are perceived as more reliable.

Key drivers of growth in body slimming industry

With their rising social status, Chinese women today are more concerned about their appearance and are spending more on slimming services. The increasing disposable income of Chinese consumers has made slimming services more affordable. In addition, Chinese consumers are more cautious about the safety of obesity drugs, and many of them shift to slimming centres, where they are not required to take drugs for slimming.

Moreover, there is a huge obese and overweight population within the PRC indicating great potential demand for the slimming industry. According to "New Trends of National & International Obesity Prophylaxis & Treatment Industry" from the Committee of Experts of International Slimness & Fitness Association (ISFA) published on the Soosou Website (搜瘦網: www.soosou.com) on 11 March 2009 in the PRC, the obese population exceeded 100 million while the overweight population reached 200 million.

Various types of promotions, advertisements and discounts from slimming centres are another factor driving the growth of body shaping and slimming in the PRC. With the prevalence of internet shopping, some slimming centres also offer discounts and vouchers via online group purchase agencies. Premium brands usually choose celebrity endorsements for their advertisements.

Currently, the body shaping and slimming market in the PRC is still in development and the penetration rate of slimming centres is still low, especially in lower-tier cities. To reach more consumers and enlarge their client base, many chained slimming centres are trying to expand by opening more outlets. Moreover, new players are also trying to enter the PRC market.

INDUSTRY OVERVIEW

HONG KONG

Economic Overview

The economy of Hong Kong has grown steadily over the past few years and gradually recovered from the global financial crisis in 2008. GDP (in chained 2008 dollars) in Hong Kong has increased from HK\$1,181,605 million in 2001 to HK\$1,743,465 million in 2010, representing a CAGR of 4.4%.

The per capita GDP (in chained 2008 dollars) in Hong Kong has increased from HK\$175,893 in 2001 to HK\$246,677 in 2010, representing a CAGR of 3.8%. This shows that the living standard in Hong Kong is generally improving.

GDP and per capita GDP of Hong Kong from 2001 to 2010 (in chained 2008 dollars)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| GDP (HK\$ million) (in chained 2008 dollars) | 1,181,605 | 1,203,359 | 1,239,532 | 1,344,477 | 1,439,695 | 1,540,758 | 1,639,204 | 1,677,011 | 1,632,275 | 1,743,465 |
| Per capita GDP (HK\$) (in chained 2008 dollars) | 175,983 | 178,431 | 184,158 | 198,198 | 211,310 | 224,695 | 236,677 | 240,339 | 233,059 | 246,677 |

Source: Census and Statistics Department, Hong Kong

Private consumption expenditure in Hong Kong shows a stable trend in the last few years. The private consumption expenditure (in chained 2008 dollars) in Hong Kong increased from HK\$806,198 million in 2001 to HK\$1,088,618 million in 2010, representing a CAGR of 3.4%.

Private consumption expenditure in Hong Kong from 2001 to 2010 (in chained 2008 dollars)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|
| Private consumption expenditure (HK\$ million) (in chained 2008 dollars) | 806,198 | 799,074 | 788,550 | 843,659 | 868,970 | 920,456 | 999,056 | 1,022,862 | 1,029,164 | 1,088,618 |

Source: Census and Statistics Department, Hong Kong

INDUSTRY OVERVIEW

Female Population

Our principal target clients are females. The total female population in Hong Kong was 3.7 million by end of 2010. In particular, the age group of 45–49 accounted for the largest percentage of the female population, followed by the age group of 40–44, the age group of 35–39, the age group of 50–54 and the age group of 30–34. The five largest age groups accounted for 44.3% of the total female population.

| Age group | Female Population in Hong Kong in 2010 ('000) | Total Population in Hong Kong in 2010 ('000) |
|-----------------------|--|---|
| Below 15 | 409.7 | 848.5 |
| 15–19 | 209.8 | 431.2 |
| 20–24 | 232.9 | 453.5 |
| 25–29 | 309.6 | 539.0 |
| 30–34 | 325.1 | 551.0 |
| 35–39 | 332.2 | 570.0 |
| 40–44 | 334.2 | 583.1 |
| 45–49 | 359.2 | 661.6 |
| 50–54 | 325.2 | 641.0 |
| 55–59 | 252.5 | 501.3 |
| 60–64 | 193.7 | 391.5 |
| Above 65 | 496.3 | 925.9 |
| All age groups | <u>3,780.4</u> | <u>7,097.6</u> |

Source: Census and Statistics Department, Hong Kong

Employed females by monthly employment earning

The total number of employed females in Hong Kong was 1.2 million in 2009. There is also an increasing trend in the number of females earning HK\$30,000 or more per month. In 2005, the number of females earning HK\$30,000 or more per month in Hong Kong was 118,300, which increased to 157,200 in 2009, representing a CAGR of 7.4%.

INDUSTRY OVERVIEW

Our Directors believe that the trend shows that the number of high-income females is increasing in Hong Kong. This female group tends to look for quality services and products, and is able to afford luxurious beauty and healthcare services and products. The table below sets out the number of employed females in Hong Kong categorised by monthly employment earnings from 2005 to 2009.

| Monthly employment earnings of employed females (HK\$) | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|-----------------------|-----------------------|---------------------|-----------------------|-----------------------|
| | ('000) | ('000) | ('000) | ('000) | ('000) |
| 6,000–6,999 | 119.3 | 113.9 | 117.6 | 121.0 | 120.5 |
| 7,000–7,999 | 105.7 | 104.6 | 112.4 | 113.7 | 113.9 |
| 8,000–8,999 | 100.2 | 102.1 | 106.0 | 114.4 | 123.2 |
| 9,000–9,999 | 75.1 | 84.9 | 86.3 | 90.8 | 84.8 |
| 10,000–14,999 | 234.5 | 240.9 | 246.8 | 259.0 | 258.7 |
| 15,000–19,999 | 129.6 | 136.9 | 144.6 | 148.1 | 144.7 |
| 20,000–29,999 | 123.6 | 132.9 | 144.5 | 157.1 | 156.2 |
| ≥ 30,000 | <u>118.3</u> | <u>135.7</u> | <u>143.8</u> | <u>156.7</u> | <u>157.2</u> |
| Total number of employed females | <u><u>1,006.3</u></u> | <u><u>1,051.9</u></u> | <u><u>1,102</u></u> | <u><u>1,160.8</u></u> | <u><u>1,159.2</u></u> |

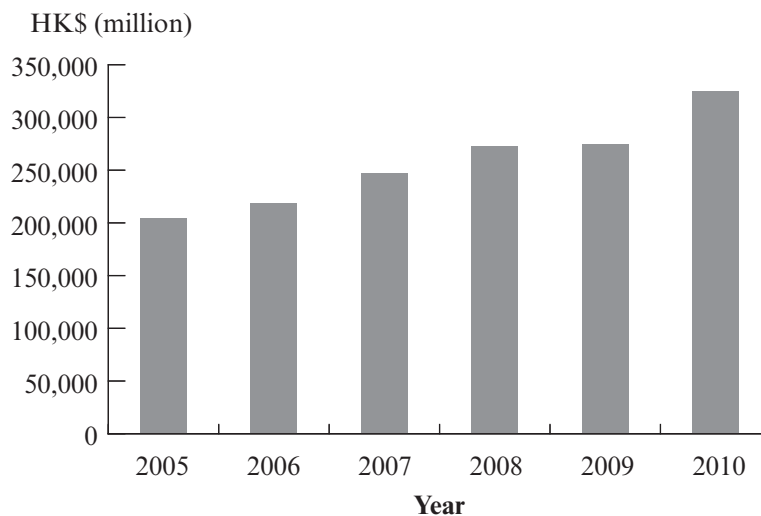
Source: Census and Statistics Department, Hong Kong

INDUSTRY OVERVIEW

Expenditure on Cosmetics and Personal Care Products

The total retail sales of Hong Kong increased steadily from HK\$204,372 million in 2005 to HK\$324,966 million in 2010, representing a CAGR of 9.7%. The volume index (taking average of monthly indices from October 2004 to September 2005 being 100) of retail sales in Hong Kong increased from 101.3 in 2005 to 141.9 in 2010.

Total Retail Sales of Hong Kong



Source: Census and Statistics Department, Hong Kong

There is also a steady increase in the average monthly household expenditure for cosmetics and personal care products in Hong Kong from HK\$225 in 2004/2005 to HK\$233 in 2009/2010.