



RM Group Holdings Limited

御藥堂集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8185

PLACING

Sole Sponsor

WAG WORLDSEC CORPORATE FINANCE LIMITED

Joint Lead Underwriters



GREAT ROC
CAPITAL SECURITIES LIMITED
鴻騰資本證券有限公司

**WAG WORLDSEC CORPORATE
FINANCE LIMITED**



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IMPORTANT

If you are in any doubt about any content of this document, you should obtain independent professional advice.



RM Group Holdings Limited (御藥堂集團控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

Number of Placing Shares : 129,600,000 Placing Shares
Placing Price : Not more than HK\$1.07 per Placing Share
and expected to be not less than HK\$0.76
per Placing Share, payable in full on
application, plus brokerage of 1%, Stock
Exchange trading fee of 0.005% and SFC
transaction levy of 0.003%

Nominal Value : HK\$0.01 per Share
Board Lot : 4,000 Shares
Stock Code : 8185

Sole Sponsor

WAG Worldsec Corporate Finance Limited

Joint Lead Underwriters

WAG Worldsec Corporate Finance Limited

Luen Fat Securities Co. Ltd.

Great Roc Capital Securities Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Placing Price is expected to be determined by agreement between the Lead Manager (for itself and on behalf of the Underwriters) and the Company on the Price Determination Date, which is expected to be on or before Monday, 7 October 2013 (Hong Kong time) or such later date may be agreed by the Lead Manager (for itself and on behalf of the Underwriters) and the Company. If, for any reason, the Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to agree on the Placing Price on or before Monday, 7 October 2013 (Hong Kong time) or such later date may be agreed by the Lead Manager (for itself and on behalf of the Underwriters) and the Company, the Placing will not proceed and will lapse. The Placing Price will be not more than HK\$1.07 and is currently expected to be not less than HK\$0.76, unless otherwise announced. Prospective investors of the Placing Shares should be aware that the Placing Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Placing Price range stated in this prospectus.

The Lead Manager (for itself and on behalf of the Underwriters) may, with the Company's consent, reduce the indicative Placing Price range stated in this prospectus at any time prior to the Price Determination Date. In such case, notice of such reduction will be published on the Company's website at www.royalmedic.com and the GEM Website as soon as practicable but in any event not later than the Price Determination Date. Further details are set out in the section headed "Structure and Conditions of the Placing" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Placing Shares should note that the obligations of the Underwriters under the Underwriting Agreement are subject to termination by the Lead Manager (for itself and on behalf of the Underwriters) upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of these termination provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

30 September 2013

CHARACTERISTICS OF GEM

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE

(Notes 1 and 4)

Expected Price Determination Date (<i>Note 2</i>)	Monday, 7 October 2013
Announcement of the Placing Price and the indication of level of interest in the Placing to be published on the GEM website and the Company's website at www.royalmedic.com on or before	Thursday, 10 October 2013
Allotment or transfer of the Placing Shares to placees on or before	Thursday, 10 October 2013
Deposit of share certificates for the Placing Shares into CCASS on or before (<i>Note 3</i>)	Thursday, 10 October 2013
Dealings in Shares on the GEM expected to commence at 9:00 a.m. on	Friday, 11 October 2013

Notes:

1. All times and dates refer to Hong Kong times and dates.
2. The Placing Price is expected to be determined on Monday, 7 October 2013 or such later date as may be agreed between the Lead Manager (for itself and on behalf of the Underwriters) and the Company. If the Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to reach any agreement on the Placing Price on or before Monday, 7 October 2013 or such later date as may be agreed between the Lead Manager (for itself and on behalf of the Underwriters) and the Company, the Placing will not become unconditional and will lapse immediately.
3. The share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited in CCASS on or before Thursday, 10 October 2013 for credit to the relevant CCASS participants' or CCASS investor participants' stock accounts designated by the Lead Manager (for itself and on behalf of the Underwriters), the placees or their respective agents (as the case may be). No temporary documents or evidence of title will be issued by the Company. All share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting Agreement has not been terminated in accordance with its terms prior to 8:00 a.m. (Hong Kong time) on the Listing Date.
4. A separate announcement will be issued if there is any change to the above expected timetable.

For details of the structure of the Placing, including the conditions thereof, please refer to the section headed "Structure and Conditions of the Placing" in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the Company solely in connection with the Placing and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Placing Shares offered by this prospectus pursuant to the Placing. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.

You should rely only on the information contained in this prospectus to make your investment decision. The Company, the Sole Sponsor, the Lead Manager and the Underwriters 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 the Company, the Sole Sponsor, the Lead Manager, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person involved in the Placing.

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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 of the information which may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are summarised in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

OVERVIEW

The Group is principally engaged in the business of formulation, marketing, sales and distribution of health supplements and beauty supplements and products mainly in Hong Kong. The Group's products are sold under its proprietary brands and private label brands specifically developed for and owned by a renowned retail chain of health and beauty products in Hong Kong and Macau (the “**Distribution Facilitator**”). The Group outsources most of its production to its suppliers and subcontracting manufacturers and the Group distributes its products mainly through the Distribution Facilitator. The Group also operates two Chinese medicine clinics to provide traditional Chinese medicine treatments, services and retailing of health supplements to the general public consumers.

According to the Ipsos Report, the Group ranked third as a Proprietary Chinese Medicine (“**PCM**”) health supplements provider in Hong Kong in 2012, with a market share of 10.4% in terms of retail sales value. The size of the PCM health supplements market was approximately HK\$702 million in Hong Kong in 2012, which is a subset of the overall health supplement market. The Group's PCM health supplements represented approximately 1.9% market share in terms of retail sales value within the overall health supplements market size of approximately HK\$3,806 million in Hong Kong in 2012.

PRODUCTS

The Group has two segments of products: (i) health supplements, collectively known as nutritional and herbal supplements, refer to any instant of an orally consumed health product aim to supplement the diet and improve inner health/immune system, including bones, eyes, heart, liver, etc. (irrespective of their packaging or form); and (ii) beauty supplements and products, which primarily consist of (1) preparations aim to improve body shape/outward appearance; and (2) nutrients which aim to improve skin conditions, such as collagen, antiradicals and coenzymes of which the main functions include skin whitening, anti-oxidation, anti-aging and anti-wrinkle. Under the Group's health supplements segment, its products are further divided into two categories: PCM health supplements and non-PCM health supplements. As at the Latest Practicable Date, the Group sold and distributed 22 health supplements under the Group's proprietary brands including “**御藥堂**” (Royal Medic) and Herballand and also sold to and distributed through the Distribution Facilitator 36 health supplements under the Distribution Facilitator's private label brands, namely, “**Health Proof**” and “**Kiwi Lab**”. In addition, the Group sold and distributed 8 beauty supplements and products under its proprietary brands such as “**御藥堂**” (Royal Medic) and “**La Gusto**”, and sold to and distributed through the Distribution Facilitator 8 beauty supplements under the private labels, “**Kiwi Lab**” and “**Health Proof**”, as at the Latest Practicable Date. The Group's top 5 best-selling products for the year ended 31 March 2013 were Royal Medic No. 1

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Chinese CS-4 (御藥堂培植蟲草菌絲體CS-4) (“**Royal Medic CS-4**”), La Gusto Slim Coffee (格斯圖特濃燒脂咖啡), Kiwi Lab Magic Mix (奇異立寶奇妙瘦), Royal Medic Liver Guard (御藥堂淨肝健) and Royal Medic Broken Ganoderma Spore (御藥堂破壁靈芝孢子) (“**RM Broken Ganoderma Spore**”).

Royal Medic CS-4 is the best-selling product under the Group’s proprietary brand, “御藥堂” (Royal Medic). According to the reports issued by an independent global marketing research firm, Royal Medic CS-4 ranked first in terms of sales value in the Cordyceps market in Hong Kong for five consecutive years ended August 2013. Royal Medic CS-4 is a PCM health supplement comprises solely Chinese herbal medicine ingredients. It is a Cordyceps product, which through the Double-blinded Preliminary Clinical Trial (雙盲初步臨床測試) study conducted by the Institute for the Advancement of Chinese Medicine (IACM) Ltd (“**IACM**”) in 2008, among other benefits, proven to be 82% effective in improving insomnia condition. In addition, Royal Medic CS-4 has been awarded and qualified in “A-Mark Quality Chinese Medicine Authentication Certificate” by Hong Kong Chinese Medicine Authentication Centre.

Another one of the top selling products of the Group, RM Broken Ganoderma Spore, has also been awarded and qualified in “A-Mark Quality Chinese Medicine Authentication Certificate” by Hong Kong Chinese Medicine Authentication Centre in 2013. In addition, the Group engaged IACM to conduct a preliminary clinical trial on RM Broken Ganoderma Spore. The preliminary clinical trial concluded that RM Broken Ganoderma Spore may assist in stabilising blood lipids, blood glucose and cholesterol. Please refer to the paragraphs headed “Collaboration with external research partners” under the sub-section “Product Development and Research” in the “Business” section in this prospectus for further details relating to the preliminary clinical trials. Please also refer to the paragraph headed “Disclaimer” under the sub-section “The Group’s Products and Services” in the “Business” section in this prospectus.

The Group believes that its “御藥堂” (Royal Medic) brand has become a household name of health supplements in Hong Kong.

The Distribution Facilitator is acting as the major distributor of the Group during the Track Record Period. The five largest suppliers of the Group during the Track Record Period are based in New Zealand, Malaysia and Hong Kong. They supply semi-finished products, packaging materials and bottles as well as provide encapsulation, bottling and quality inspection services to the Group.

THE GROUP’S BUSINESS MODEL

Sales and Distribution

The Directors believe that the Group’s business model of promoting health supplements and beauty supplements and products addresses the needs of different consumer groups through effective sales and marketing strategies and activities led by the Group’s experienced sales and marketing teams. The Group engaged the Distribution Facilitator to take advantage of its extensive retail network as the Group’s major sales channel for its products in Hong Kong. This strategy is effective in achieving high market penetration of its products to the relevant market segments and has played a significant role in the Group’s success.

The Group sells and distributes its products mainly through the following channels: (i) on the shelves at the stores of the Distribution Facilitator (the “**Shelved Products**”); (ii) at the special designated counters (“**SDCs**”) located at the stores of the Distribution Facilitator (the “**Counter**”).

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Products”); (iii) at the Hong Kong Brands and Products Expo; (iv) by direct sales via the Group’s membership club, namely, the Wisdom Club; (v) at the Royal Medic Chinese Medicine Clinics; and (vi) to other customers¹ for some of the Group’s health supplements and beauty supplements and products.

The majority of the Group’s products are distributed as the Shelved Products in the stores of the Distribution Facilitator to the general public consumers. The Distribution Facilitator is the principal high-street distribution channel of the Group’s proprietary brands products, as well as the Distribution Facilitator’s private label products. As at the Latest Practicable Date, the Group has also set up 27 SDCs in the Distribution Facilitator’s stores in Hong Kong to promote and sell the Counter Products and employed 77 sales promoters to station at selected stores of the Distribution Facilitator in Hong Kong, including each of the stores with an SDC.

Relationship with the Distribution Facilitator

The Distribution Facilitator is one of the largest retail chains of health and beauty products in Hong Kong. The Distribution Facilitator is indirectly owned by one of the leading pan-Asia retailers with approximately 5,600 retail outlets in Asia, including Hong Kong, mainland China, Macau and Southeast Asia.

The Group’s business relationship with the Distribution Facilitator has been established since 2005, at which time, the Group entered into a trading terms agreement with the owner of the Distribution Facilitator (the “**Trading Terms Agreement**”). The Trading Terms Agreement will continue to be in force until it is superseded or amended by subsequent agreement confirmed in writing by the owner of the Distribution Facilitator. To date, the Trading Terms Agreement remains in force. Since the execution of the Trading Terms Agreement, the Group commenced selling its products through the network of the Distribution Facilitator’s stores in Hong Kong. While there is no binding obligation to use the Distribution Facilitator as the Group’s exclusive distributor to distribute the Group’s proprietary brands products under the Trading Terms Agreement, the Group decides to distribute its proprietary brands products mainly through the Distribution Facilitator. Leveraging on the Distribution Facilitator’s extensive retail network with approximately 355 stores in Hong Kong and approximately 15 stores in Macau, the Group is able to target its products at different consumer groups located in all districts in Hong Kong.

The Group has also collaborated with the Distribution Facilitator to develop private label products for the Distribution Facilitator. The Group entered into two private label products agreements with the owner of the Distribution Facilitator in 2010 and 2011, respectively, pursuant to which the Group has developed and supplied health supplements and beauty supplements and products under the private label brands of “Kiwi Lab” and “Health Proof”.

The Distribution Facilitator provides a platform for the Group to sell its products to the general public consumers. A significant portion of the Group’s revenue is attributable to the sales of the Group’s products through the Distribution Facilitator to the general public consumers.

¹ Other customers of the Group are (i) convenient stores; (ii) Chinese medicine practitioners; and (iii) beauty salons. The Group provides its proprietary brands health supplements and beauty supplements to these customers. The Group offers credit terms of up to 120 days.

SUMMARY

	For the year ended 31 March 2012		For the year ended 31 March 2013	
	Revenue	% of Total	Revenue	% of Total
	<i>HK\$'000</i>	Revenue	<i>HK\$'000</i>	Revenue
Sold through Distribution Facilitator's ¹				
Shelves	123,286	77.6%	116,957	71.4%
SDCs	24,751	15.6%	35,140	21.5%
Others	<u>10,756</u>	<u>6.8%</u>	<u>11,670</u>	<u>7.1%</u>
	158,793	100.0%	163,767	100.0%

The Distribution Facilitator has the right to return any unsold stock of products to the Group. For the two years ended 31 March 2013, the Distribution Facilitator returned products of approximately HK\$2.7 million and HK\$1.0 million, respectively, which represented 1.7% and 0.6% of the total revenue of the Group for the corresponding year. Please refer to the paragraph headed “Sales and Distribution” under the section headed “Business” in this prospectus for details.

Reliance on the Distribution Facilitator carries certain risks. If the Group's relationship with the Distribution Facilitator is adversely affected for whatever reason resulting in the Distribution Facilitator restricting the sale of the Group's products in the Distribution Facilitator's stores, or ceasing to sell the Group's products altogether, the Group will need to source other channels, which may not have the same extensive network as the Distribution Facilitator, to sell its products to the general public consumers.

The Group has no control over the business plan or strategy of the Distribution Facilitator, including its expansion or downsizing plans, its store coverage and its customer retention plans. If the Distribution Facilitator does not continue to expand its stores, the expansion of the Group's sales may be affected. In addition, if the Distribution Facilitator's trading conditions deteriorate such that it downsizes its stores or cuts down its marketing and promotion plans, the sales of the Group's products may be adversely affected. In the worst case scenario, if the business of the Distribution Facilitator fails, the Group will lose substantially all its sales channels and will need to source other channels to sell its products to the general public consumers. Please refer to the section headed “Risk Factors” in this prospectus for details.

The business relationship between the Group and the Distribution Facilitator has so far sustained for 8 years and is continuing. As long as the general public consumers continue to purchase the Group's products from the Distribution Facilitator, the Directors consider that there is no compelling reason for the Distribution Facilitator to end such business relationship and stop distributing the Group's products to the general public consumers. Furthermore, the Group's relationship with the Distribution Facilitator appears to be in very good terms given that the Group is managing and supplying private label products for the Distribution Facilitator. The Group is confident that given the outstanding quality of the Group's products as recognised by the general public consumers, the skilful team of promoters and the Group's reputation and track record as a supplier to the Distribution Facilitator, the Group would be able to establish alternative channels to sell its products where necessary.

¹ In addition to the figure above, the revenue attributable to the Group's products sold through an associate of the Distribution Facilitator amounted to approximately HK\$226,000 during the Track Record Period, under the same Trading Terms Agreement.

SUMMARY

Marketing and Production

The Group believes that strong brand awareness, recognition and reputation are essential to the Group's success. Accordingly, the Group places great emphasis and efforts in marketing and promoting its brands and products. The Group's marketing team consists of 14 staff and is responsible for the design and promotion of both the Group's proprietary brands and the Distribution Facilitator's private label brands and products, as well as the formulation of marketing strategies. The Group is in full control of marketing campaigns, including selection of products to be advertised, selection of media, pricing, and promotion timing.

The Group has adopted a multi-faceted marketing strategy to market and promote its brands and products. The Group implements its branding and marketing strategies through various media channels, such as television commercials, printed media, digital media, outdoor advertising, in-store promotion, the Wisdom Club and product road shows. In addition, the Group has engaged a number of famous artistes, such as Ms. Michelle Yim Wai Ling (米雪) and Mr. Michael Miu Kiu Wai (苗僑偉), as the Group's brand ambassadors to promote and enhance the public image of the Group's brands and products.

The Group believes that this effective advertising and promotion strategy has a positive and long-lasting effect on the public and is able to further reinforce the Group's brands image and recognition among the general public consumers. The Group also believes that the success of its best-selling product, Royal Medic CS-4, is attributable to, among other things, its successful marketing and promotion strategy, which includes intensive media and outdoor advertising and regular promotion activities carried out with the Distribution Facilitator.

PRODUCT DEVELOPMENT AND RESEARCH

The ability to develop and introduce new products, which meets the ever-changing market demand, is of paramount importance to the success of the Group's future business growth. The Group follows a market orientated new product development strategy.

The Group has set up a product development committee, which comprises the chief executive officer and the Group's executives covering the functions of finance, sales, marketing, licensing, formulation, raw material sourcing, packaging and regulatory compliance. The Group usually launches its new products based on (i) its own formulation (lead time to launch is approximately 3 to 4 months); (ii) its suppliers' formulation with the Group's modification (lead time to launch is approximately 3 months); and (iii) its suppliers' formulation (lead time to launch is approximately 1 month). However, the aforesaid estimated lead time does not include time for registration of product, if necessary. If a new product is required to be registered under the Chinese Medicine Ordinance, the lead time to launch will be extended. As at the Latest Practicable Date, the Group has launched approximately 100 products based on the aforesaid methods since the Group was founded in 2002. Majority of the Group's products were developed either through the supplier's formulation with the Group's modification or the suppliers' existing formulation.

In addition, the Group collaborates with research institutions and universities to study and develop new products as well as carry out quality tests and preliminary clinical trials on two of the top selling products of the Group.

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PRODUCTION

The Group outsources most of the production of its health supplements and beauty supplements and products to its selected suppliers and subcontracting manufacturers. The Group's suppliers supply raw materials (in the forms of powder/semi-finished products) and packaging materials to the Group, whereas the Group's subcontracting manufacturers principally carry out encapsulation and/or bottling work for the Group. The Group also operates two bottling production lines at its headquarters in Hong Kong for certain semi-finished products. The two bottling lines have a production capacity of approximately 3,000 to 4,000 bottles per day. In addition, the Group carries out almost all the packaging and labeling in-house with a capacity of between approximately 3,000 and 6,000 boxes per day depending on the complexity of the packaging.

The Group procures raw materials and packaging materials from its suppliers. Raw materials are in powder form and semi-finished products, which are in the forms of capsules, tablets, caplets, sachets or syringes containing the ingredients. The Group's suppliers deliver these items (except for certain semi-finished products) to the subcontracting manufacturers for encapsulation and bottling.

Generally, the Group's production process can be divided into two main categories, depending on the form of the raw materials. The production process for raw materials in powder form is different from that of semi-finished products. The detailed production processes are set out in the paragraphs headed "Production" under the "Business" section in this prospectus.

INDUSTRY AND COMPETITION LANDSCAPE

According to the Ipsos Report, the Group's brand "御藥堂" (Royal Medic) ranked third in terms of sales value amongst all PCM health supplements sold in Hong Kong in 2012. The competition among existing market players is intense in terms of product quality, brand recognition, pricing, marketing and advertising. The Group's key competitors consist of local and foreign health supplements and beauty supplements and products manufacturers, distributors and retailers. The Group believes that the recognition of its brand "御藥堂" (Royal Medic) by the general public consumers and its extensive sales network mainly through the Distribution Facilitator are keys to its success and distinguish it from its competitors. Please refer to the "Industry Overview" section and the paragraph headed "Competition" in the "Business" section in this prospectus for further details.

THE GROUP'S COMPETITIVE STRENGTHS

The Group believes that its principal competitive strengths include the following:

- Strong position to capture the growing health supplements and beauty supplements and products markets in Hong Kong;
- Market-oriented product development strategy and ability to respond swiftly to market trends and demands;
- Strategic brand positioning and strong brand recognition;

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- Direct promotion of the Group’s products to the general public consumers; and
- Experienced and dedicated management team.

Please refer to the paragraph headed “Competitive Strengths” in the “Business” section of this prospectus for further details.

HIGHLIGHT OF HISTORICAL FINANCIAL INFORMATION

The tables below present a summary of financial information for the year indicated and should be read in conjunction with the financial information in Appendix I in this prospectus.

Highlight of consolidated statements of comprehensive income

	For the year ended 31 March			
	2012		2013	
	<i>HK\$’000</i>	% of total revenue	<i>HK\$’000</i>	% of total revenue
Revenue	158,793	100.0%	163,767	100.0%
Gross profit	126,344	79.6%	129,010	78.8%
Profit from operations	52,725	33.2%	46,594	28.6%
Profit and total comprehensive income attributable to owners of the Company	43,032	27.1%	39,264	24.0%

Please refer to the section headed “Financial Information — Principal statements of comprehensive income — Gross profit and gross profit margin” for segmental breakdown of the gross profit margin.

Highlight of consolidated statements of financial position

	As at 31 March	
	2012	2013
	<i>HK\$’000</i>	<i>HK\$’000</i>
Total non-current assets	16,303	16,868
Total current assets	73,225	66,061
Total current liabilities	50,158	44,307
Net current assets	23,067	21,754
Total non-current liabilities	83	71
Net assets	39,287	38,551
Key ratios		
Gearing ratio	10.6%	9.2%
Current ratio	1.5	1.5

SUMMARY

The net cash generated from operating activities during the track record period amounted to approximately HK\$47,488,000 and approximately HK\$911,000 for the two years ended 31 March 2013. The substantial difference was mainly due to the payment of taxes in respect of years of assessment 2009/2010 (approximately HK\$2.9 million), 2010/2011 (approximately HK\$8.7 million), 2011/2012 (approximately HK\$9.5 million) and provisional tax for the year of assessment 2012/2013 (approximately HK\$7.2 million) and the adjusted net working capital outflow of approximately HK\$18.3 million.

BUSINESS OBJECTIVES

The Group intends to further strengthen the brand recognition of its products among general public consumers and reinforce the Group's strong market position in the health supplements and beauty supplements and products markets in Hong Kong. The Group also aims to further expand its business operations both in Hong Kong and overseas. The Group will endeavour to achieve its objectives by implementing the following strategies:

- to expand the Group's distribution network by increasing the number of SDCs;
- to further strengthen the Group's portfolio by collaborating with the CUCAMed Company Limited (中大中醫藥科技有限公司) to develop products; and
- to further enhance the Group's marketing and promotion activities locally and overseas.

USE OF PROCEEDS

The Directors believe that the listing of the Group's Shares on GEM could enhance its profile, while the net proceeds from the Placing will strengthen the Group's financial position and allow the Group to implement and execute its business plan as set out in the paragraph headed "Implementation Plan" under the section headed "Future Plans and Use of Proceeds" in this prospectus. The Directors also believe that a public listing status on GEM will increase the public awareness of the Group and its brands and products as well as offer the Group access to the capital market for future business development and strengthen its competitiveness.

Based on the Placing Price of HK\$0.92 per Share, being the mid-point of the indicative Placing Price range of HK\$0.76 to HK\$1.07 per Placing Share, the total net proceeds raised from the Placing after deduction of listing related expenses are estimated to be approximately HK\$100 million. Pursuant to Hong Kong Accounting Standard 32, the listing related expenses of approximately HK\$9.1 million being principally professional fees and printing costs of the prospectus are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to equity transaction in relation to the issuing of new shares for listing. All other listing related expenses are recognised in the profit and loss of the respective year during the Track Record Period for the year ending 31 March 2014. For details of the listing related expenses, please refer to the paragraph headed "Administrative expenses" under "Financial Information" section in this prospectus. The net proceeds from the Placing are intended to be used as follows:

- approximately HK\$5 million, representing approximately 5.0% of the net proceeds from the Placing, will be used to increase the number of SDCs;

SUMMARY

- approximately HK\$40 million, representing approximately 40.0% of the net proceeds from the Placing, will be used to fund the Group's cooperation with a university;
- approximately HK\$35 million, representing approximately 35.0% of the net proceeds from the Placing, will be used in marketing activities to promote the Group's "Royal Medic" brand in overseas markets;
- approximately HK\$11 million, representing approximately 11.0% of the net proceeds from the Placing, will be used in marketing activities to promote the Group's brands in Hong Kong; and
- the remaining balance of approximately HK\$9 million, representing approximately 9.0% of the net proceeds from the Placing, will be used for general working capital and general corporate purposes.

In the event that any part of the Group's future plans does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other future plans and/or to new projects of the Group and/or to hold the proceeds on short-term interest bearing deposits with licenced banks and/or financial institutions in Hong Kong so long as the Directors consider it to be in the best interests of the Company and the Shareholders taken as a whole.

According to current estimates, the Group expects that the net proceeds from the Placing, which are approximately HK\$100 million will be sufficient to finance the implementation of the Company's future plans up to 31 March 2015. In the event that the net proceeds from the Placing are insufficient to finance the capital expenditure as mentioned above, the shortfall will be financed by the internal resources of the Group.

If the final Placing Price is set at the highest or lowest point of the indicative Placing Price range, the net proceeds of the Placing will increase or decrease by approximately HK\$19.7 million, respectively. In such event, the net proceeds from the Placing will be used in the same proportions as disclosed above irrespective of whether the Placing Price is determined at the highest or lowest point of the indicative Placing Price range.

Please refer to the "Future Plans and Use of Proceeds" section in this prospectus for further details.

DIVIDEND AND DIVIDEND POLICY

The Group has declared dividends of approximately HK\$31.0 million and HK\$40.0 million to the shareholders of the companies now comprising the Group, for the two years ended 31 March 2013. Other than such dividends, the Group has not made any other dividend distribution to the shareholders during the Track Record Period. The historical dividend distribution is not an indication and may not be used as a reference or basis to determine the level of future dividend distribution that the Company may declare in the future.

SUMMARY

The payment and amount of any future dividend will be at the discretion of the Board after taking into account the financial and business conditions, earnings, capital requirements and availability, future prospects, contractual reasons, applicable laws and other relevant factors as it may deem relevant at such time. The Shareholders at general meeting can approve any declaration of dividends, which may not exceed the amount recommended by the Board. As these factors and the payment of dividends is at the discretion of the Board, which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. In addition, the Company may from time to time to declare the quarterly and/or interim dividends as appear to the Board to be justified by the profits of the Group.

Subject to the factors described above, the Board currently intends to recommend at the relevant shareholders meetings an annual dividend of not less than 40% of the Group's net profit available for distribution to the Shareholders in the foreseeable future.

RECENT DEVELOPMENTS

As far as the Directors are aware, there have been no material changes in the general economic and market conditions in Hong Kong or Taiwan or the industry in which the Group operates that have materially and adversely affected the Group's business operations or financial condition since 31 March 2013 up to the Latest Practicable Date.

Based on the Group's management accounts for the five months ended 31 August 2013, the Group's unaudited total revenue and gross profit were approximately HK\$64.6 million and HK\$49.5 million, respectively, representing increase of 1.44% and 1.52% compared to the same period in 2012. The total revenue and gross profit remained stable for the 5 months ended 31 August 2012 and 2013. The Group's cash and cash equivalents decreased by HK\$13.9 million, or 63.5%, from approximately HK\$21.9 million as at 31 August 2012 to HK\$8.0 million as at 31 August 2013. The decrease in cash and cash equivalents was primarily due to the net effect of (i) cash generated from operating activities; (ii) tax payments of approximately HK\$10.4 million; and (iii) repayment of amounts due to related parties of approximately HK\$26.0 million. The Group's gross profit margin remained relatively stable subsequent to the Track Record Period up to the Latest Practicable Date.

The Group expects its total Listing-related Expenses (excluding underwriting commission), which are non-recurring in nature, to amount to approximately HK\$22.7 million, out of which the Group has incurred and recognised approximately HK\$7.8 million during the Track Record Period. The Group expects to incur and recognise an additional amount of approximately HK\$14.9 million for the year ending 31 March 2014, of which approximately HK\$3.4 million has been accounted for in the 5 months ended 31 August 2013.

The Directors confirm that there have been no material adverse changes in the financial or trading position, indebtedness or prospects of the Group since 31 March 2013, being the last date of the Group's latest audited financial results as set out in the Accountants' Report in Appendix I, up to the date of the Prospectus.

SUMMARY

PLACING STATISTICS

	Based on Placing Price of HK\$0.76	Based on Placing Price of HK\$1.07
Market Capitalisation	HK\$391.4 million	HK\$551.0 million
Unaudited pro forma adjusted combined net tangible asset per Share	HK\$0.23	HK\$0.31

LITIGATION AND COMPLIANCE

For the period from 6 August 2010 to 17 January 2013, which is the date of last warning letter, the Group had received a total of 43 warning letters from the Department of Health of the Government of Hong Kong (“**Department of Health**”) notifying the Group that certain advertisements and packaging of the Group’s products might contravene sections 3 and/or 3B of the Undesirable Medical Advertisements Ordinance (Chapter 231, the Laws of Hong Kong) (“**UMAO**”) due to certain restricted words being used in the advertisements and on the packaging of the Group’s products. The Group has received summonses in relation to some of the aforesaid non-compliances and has been fined accordingly. The suggestions of the Department of Health relating to the wording on advertisements and packaging had been complied with by the Group subsequently.

Whenever a product is offered for sale that is claimed to have “medicinal effects”, it may be classified as a pharmaceutical product and medicine (“**PP/M**”). PP/M products are required to be registered with the Department of Health and are subject to various legislation in relation to pharmaceutical products and medicine in Hong Kong. None of the Group’s products was registered with the Department of Health as a pharmaceutical product at the Latest Practicable Date. However, some of the wordings on the historical packaging, labels and/or inserts of the Group’s products might amount to claims of having “medicinal effects”. As advised by the Hong Kong Legal Counsel, in relation to these historical packaging, labels and/or inserts, in theory the Department of Health can press charges under the Pharmacy and Poisons Ordinance (Chapter 138, the Laws of Hong Kong) (the “**Pharmacy and Poisons Ordinance**”), the Pharmacy and Poisons Regulations (Chapter 138A, the Laws of Hong Kong) (the “**Pharmacy and Poisons Regulations**”) and the UMAO. The Group has subsequently revised the packaging, labels and/or inserts of the products concerned and the Hong Kong Legal Counsel is of the view that, upon changing the wordings on the packaging, labels and/or inserts of the relevant products as advised, the Group’s products are unlikely to be regarded as PP/M within the Pharmacy and Poisons Ordinance and therefore are unlikely be subject to the Pharmacy and Poisons Ordinance and Pharmacy and Poisons Regulations.

For further details, please refer to the paragraph headed “Litigation and Compliance” in the “Business” section in this prospectus.

SUMMARY

RISK FACTORS

The section headed “Risk Factors” in this prospectus describes events, uncertainties and circumstances that may create or enhance risks to the Group’s business, financial condition or results of operations. The relatively material risks are as follows: (i) the Group’s business depends significantly on the strength of its brands and reputation. The Group’s failure to develop, maintain and enhance its brands and reputation may materially and adversely affect the level of market recognition of, and trust, in its products; and (ii) the Group sells its products to the general public consumers mainly through the Distribution Facilitator, and failure to maintain the relationship with the Distribution Facilitator or otherwise expand the Group’s distribution network may materially and adversely affect its business. For further details, please refer to the “Risk Factors” section in this prospectus.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus.

“A.S. Wat HK”	A.S. Wat Hong Kong Limited (previously known as Tianren Pharmaceutical (Hong Kong) Limited 天仁藥業(香港)有限公司, Tianren (Hong Kong) Company Limited 天仁(香港)有限公司 and, World Communication Technology Limited 通昇科技有限公司), a limited liability company incorporated under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and indirectly wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director
“A.S. Wat International”	A.S. Wat International Limited (previously known as Tianren Pharmaceutical (International) Limited 天仁藥業(國際)有限公司), a limited liability company incorporated in Hong Kong on 15 November 2002 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and indirectly wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director
“Able Island”	Able Island Group Limited, a limited liability company incorporated in BVI on 13 August 2003 under the laws of BVI with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director
“Accountants’ Report”	the accountants’ report on the Company set out in Appendix I to this prospectus
“A-Mark Scheme”	the A-Mark Quality Chinese Medicine Authentication Scheme established by Hong Kong Chinese Medicine Authentication Centre
“Apex Bloom”	Apex Bloom Holdings Limited (峰盛控股有限公司), a limited liability company incorporated under the laws of BVI on 16 November 2011 which is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Apex Consultant”	Apex Consultant Company Limited (星匯策略有限公司) (previously known as Starwave Holdings Limited 星匯集團有限公司), a limited liability company incorporated in Hong Kong on 26 March 2003 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Apex Process”	Apex Process Holdings Limited (冠順控股有限公司), a limited liability company incorporated under the laws of BVI on 11 November 2011 with limited liability which is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Apex Prospection”	Apex Prospection Limited, a limited liability company incorporated under the laws of BVI on 3 April 2012 with limited liability which is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Articles” or “Articles of Association”	the articles of association of the Company conditionally adopted on 24 September 2013, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board” or “Board of Directors”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are normally open for business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in the paragraph headed “Written resolutions of the sole Shareholder” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing 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

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant
“Chinese Medicine Ordinance”	the Chinese Medicine Ordinance (Chapter 549, the Laws of Hong Kong), as amended and supplemented or otherwise modified from time to time
“CM Legend”	CM LEGEND Company Limited (仍志中大中藥傳承有限公司), a limited liability company incorporated in Hong Kong on 17 September 2013 under the Companies Ordinance with an authorized share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32, the Laws of Hong Kong), as amended and supplemented or otherwise modified from time to time
“Company”	RM Group Holdings Limited (御藥堂集團控股有限公司), a company incorporated in the Cayman Islands on 5 December 2011 as an exempted company with limited liability
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and, in the context of this prospectus, means the controlling shareholders of the Company, namely Able Island and Mr. Chan
“Counter Products”	products display at the SDCs located at the stores of the Distribution Facilitator
“Creation Chance”	Creation Chance Limited (天凱有限公司), a limited liability company incorporated in Hong Kong on 5 March 2004 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Department of Health”	the Department of Health of the Government of Hong Kong
“Director(s)”	the director(s) of the Company
“Distribution Facilitator”	a renowned retail chain of health and beauty products in Hong Kong, mainland China and Macau indirectly owned by one of the leading pan-Asian retailers with approximately 5,600 retail outlets in Asia

DEFINITIONS

“Eastern Bright”	Eastern Bright (Asia) Limited (東耀(亞洲)有限公司), a limited liability company incorporated in Hong Kong on 3 March 2010 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Floral Princess”	Floral Princess Assets Limited, a limited liability company incorporated under the laws of BVI on 6 September 2012 with limited liability which is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Fortunate Time”	Fortunate Time Limited (凱時有限公司), a company incorporated under the laws of BVI on 25 October 2011 with limited liability which is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each and an indirect wholly-owned subsidiary of the Company
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended, supplemented or otherwise modified from time to time
“GEM Website”	the internet website at www.hkgem.com operated by the Stock Exchange for the purposes of GEM
“Group”	the Company and its subsidiaries, or where the context so requires in respect of the period prior to the Company becoming the holding company of its present subsidiaries, such subsidiaries or the business which have since been acquired or carried on by them for the time being
“Health Proof International”	Health Proof International Company Limited (康寶庫國際有限公司), a limited liability company incorporated in Hong Kong on 7 June 2011 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Health Proof SDCs”	the SDCs set up mainly for purpose of promoting and selling the Distribution Facilitator’s private label, “Health Proof”, products
“Herballand Bio-Chemical”	Herballand Bio-Chemical (New Zealand) Inc. (formerly known as Slim Body Inc.), a limited liability company incorporated in BVI on 19 October 2004 under the laws of BVI with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“HK” or “Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standard
“HK Ever Spring”	Hong Kong Ever Spring Medicine Factory Limited (香港四時春製藥廠有限公司), a limited liability company incorporated in Hong Kong on 12 May 2004 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“HKFRSs”	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong Legal Counsel”	Mr. Jackson Poon Chin Ping, a Barrister-at-law in Hong Kong, the Hong Kong legal counsel of the Company (instructed by Hastings & Co.)
“Honten Limited”	Honten Limited (穎啟有限公司), a limited liability company incorporated in Hong Kong on 8 October 2012 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“IACM”	Institute for the Advancement of Chinese Medicine (IACM) Ltd, a wholly-owned subsidiary of the Hong Kong Baptist University
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the GEM Listing Rules) any Director, chief executive or substantial shareholder of the Company, or any of its subsidiaries and/or their respective associates
“Ipsos”	Ipsos Hong Kong Limited, a market research firm and an Independent Third Party
“Ipsos Report”	the industry report prepared by Ipsos, the details of which are set out in the section headed “Industry Overview” in this prospectus
“Joint Lead Underwriter”	WAG Worldsec Corporate Finance Limited, Luen Fat Securities Co. Ltd., and Great Roc Capital Securities Limited

DEFINITIONS

“Kiwi Lab International”	Kiwi Lab International Company Limited (奇異立寶國際有限公司) (previously known as Star Gather Limited 星耀行有限公司), a limited liability company incorporated in Hong Kong on 1 April 2010 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	23 September 2013, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
“Lead Manager”	WAG Worldsec, the lead manager of the Placing
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date on which dealings in the Shares first commence on GEM, which is expected to be Friday, 11 October 2013
“Madam Tsang”	Madam Tsang Pui Man (曾佩雯), a non-executive Director of the Company. She is also the wife of Mr. Chan
“Medalist”	Medalist Limited, a limited liability company incorporated in BVI on 18 October 2002 under the laws of BVI with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Memorandum” or “Memorandum of Association”	the memorandum of association of the Company adopted upon its incorporation and as amended, supplemented or modified from time to time
“Men 100”	Men 100 Limited (男人100有限公司) (previously known as Win Tender Limited 和龍有限公司), a limited liability company incorporated in Hong Kong on 11 June 2004 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and indirectly wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director
“Mr. Chan”	Mr. Chan Yan Tak (陳恩德), the chairman of the Board and chief executive officer of the Company. He is also the husband of Madam Tsang
“Mr. Wong”	Mr. Wong Mau Tai (黃茂泰), an executive Director of the Company

DEFINITIONS

“M2C”	M2C Natural Health Limited, a limited liability company incorporated in Hong Kong on 31 March 2006 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Noble State”	Noble State Holdings Limited (御國控股有限公司), a company incorporated under the laws of BVI on 16 November 2011 with limited liability which is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each and an wholly-owned subsidiary of the Company
“NT\$”	New Taiwan dollar, the lawful currency of Taiwan, Republic of China
“Placing”	the conditional placing of the Placing Shares by the Underwriters on behalf of the Company for cash at the Placing Price, as further described in the section headed “Structure and Conditions of the Placing” in this prospectus
“Placing Price”	the final price per Placing Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) which will be not more than HK\$1.07 per Placing Share and is expected to be not less than HK\$0.76 per Placing Share at which the Placing Shares are to be offered for subscription pursuant to the Placing, to be determined as further described in the section headed “Structure and Conditions of the Placing” in this prospectus
“Placing Shares”	129,600,000 new Shares being offered by the Company for subscription under the Placing
“Power Regal”	Power Regal International Limited (力宏國際有限公司), a limited liability company incorporated in Hong Kong on 6 July 2011 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“PRC” or “China”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Price Determination Agreement”	the agreement to be entered into between the Company and the Lead Manager (for itself and on behalf of the Underwriters) on the Price Determination Date to fix and record the Placing Price

DEFINITIONS

“Price Determination Date”	the date, expected to be on or before Monday, 7 October 2013, on which the Placing Price is expected to be fixed for the purposes of the Placing
“Reorganisation”	the corporate reorganisation of the Group effected in preparation for the Listing as described in the paragraph headed “Reorganisation” in the section headed “History and Development” in this prospectus and in Appendix V to this prospectus
“Rich Sunny”	Rich Sunny Investment Limited (富樺投資有限公司), a limited liability company incorporated in Hong Kong on 3 May 2006 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“RM Broken Ganoderma Spore”	Royal Medic Broken Ganoderma Spore (御藥堂破壁靈芝孢子)
“Royal Medic CMC”	Royal Medic Chinese Medicine Clinic Limited (御藥堂中醫中藥坊有限公司) (previously known as Shiny Bright Investment Limited 旭輝投資有限公司), a limited liability company incorporated in Hong Kong on 2 March 2006 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Royal Medic CS-4”	Royal Medic No.1 Chinese CS-4 (御藥堂培植蟲草菌絲體 CS-4), being the best-selling product of the Group during the Track Record Period
“Royal Medic Holdings”	Royal Medic (Holdings) Limited (御藥堂(控股)有限公司) (previously known as Union Rising Limited 億盛有限公司), a limited liability company incorporated in Hong Kong on 11 June 2004 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Royal Medic Management”	Royal Medic Management Limited (御藥堂中醫管理有限公司), a limited liability company incorporated in Hong Kong on 15 January 2007 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and indirectly wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director
“Royal Medic SDCs”	the SDCs set up for purpose of promoting and selling the Group’s proprietary brands and the Distribution Facilitator’s private label “Kiwi Lab” products

DEFINITIONS

“SDC(s)”	the special designated counter(s) of the Group located at the store(s) of the Distribution Facilitator
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	The share option scheme conditionally approved and adopted by the Company on 24 September 2013, the principal terms of which are summarized in the section headed “Share Option Scheme” in Appendix V to this prospectus
“Shelved Products”	products display on the shelves at the stores of the Distribution Facilitator
“Sky China”	Sky China Enterprises Limited (中天企業有限公司), a limited liability company incorporated in Hong Kong on 28 May 2004 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and indirectly wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 2 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Sunny Regent”	Sunny Regent (Asia) Limited (日駿(亞洲)有限公司), a limited liability company incorporated in Hong Kong on 22 April 2010 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“Super Pioneer”	Super Pioneer Holdings Limited (創鋒集團有限公司), a limited liability company incorporated in Hong Kong on 26 April 2011 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company

DEFINITIONS

“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the two years ended 31 March 2012 and 2013
“Trading Terms Agreement”	a trading terms agreement entered into between the Group and the owner of the Distribution Facilitator in 2005
“Underwriters”	the underwriters of the Placing named in the paragraph headed “Underwriters” in the section headed “Underwriting” in this prospectus
“Underwriting Agreement”	the conditional underwriting agreement entered into on 30 September 2013 by, among others, the Company, the Controlling Shareholders, the executive Directors, the non-executive Director, the Sole Sponsor and the Underwriters relating to the Placing, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“UMAO”	Undesirable Medical Advertisements Ordinance (Chapter 231, the Laws of Hong Kong), as amended and supplemented or otherwise modified from time to time
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States of America
“Venture Tycoon”	Venture Tycoon Limited (昶金有限公司), a limited liability company incorporated in Hong Kong on 20 December 2011 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
“WAG Worldsec” or “Sole Sponsor”	WAG Worldsec Corporate Finance Limited (華高和昇財務顧問有限公司), a corporation licenced by the SFC to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor of the Listing
“Wealth International”	Wealth International Holdings Limited, a limited liability company incorporated in BVI on 22 October 2002 under the laws of BVI with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and indirectly wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director

DEFINITIONS

- “Wisdom Come Marketing” Wisdom Come Marketing Strategy Limited (仍志市場策略有限公司) (previously known as Royal Medic Health Products Limited 御藥堂健康產品有限公司), a limited liability company incorporated in Hong Kong on 13 July 2004 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and indirectly wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director
- “Wisdom Come Medical” Wisdom Come Medical Group Limited (仍志醫藥集團有限公司), a limited liability company incorporated in Hong Kong on 20 August 2004 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
- “Wisdom Come Promotion” Wisdom Come Promotion Limited (仍志推廣有限公司), a limited liability company incorporated in Hong Kong on 13 August 2012 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
- “Wisdom Healthcare” Wisdom Healthcare Co., Ltd. (盈智健康事業有限公司), a limited liability company incorporated under the laws of Taiwan on 19 March 2013 with limited liability, which has a capital contribution of NT\$10,000,000 and an indirect wholly-owned subsidiary of the Company
- “Wisdom Health Products” Wisdom Health Products Company Limited (盈智健康產品有限公司), a limited liability company incorporated in Hong Kong on 5 January 2004 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and an indirect wholly-owned subsidiary of the Company
- “Wise Medic” Wise Medic Company Limited (港華藥業有限公司), a limited liability company incorporated in Hong Kong on 19 April 2012 under the Companies Ordinance with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each and indirectly wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director

DEFINITIONS

“Xaxon” Xaxon Cosmeceutical Inc. (previously known as Bellefemme Cosmeceutical Inc.), a limited liability company incorporated in BVI on 24 June 2004 under the laws of BVI with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and wholly owned by Mr. Chan, one of the Controlling Shareholders and an executive Director

“%” per cent.

All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.

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.

GLOSSARY

This glossary of technical terms contains terms used in this prospectus. As such, these terms and their meanings may not correspond to standard industry meanings or usages of these terms.

“Cordyceps”	composite substance of the stroma of cordyceps sinensis (Berk.) Sacc. parasitised on the larva of some species of insects of Fam. Hypocreaceae, and the dead caterpillar, as defined in the Chinese Medicine Ordinance (Chapter 549, the Laws of Hong Kong)
“Chinese Pharmacopoeia (中國藥典)”	the Pharmacopoeia of the PRC, compiled by the Pharmacopoeia Commission of the Ministry of Health of the PRC, is an official compendium of drugs covering traditional Chinese and western medicines and giving information on the standards of purity, description, test, dosage, precaution, storage, and the strength for each drug
“GMP”	Good Manufacturing Practice, a set of detailed guidelines on practices governing the production of pharmaceutical products formulated by the World Health Organisation, designed to protect consumers by minimising production errors and the possibility of contamination
“HACCP”	Hazard Analysis & Critical Control Points, a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product
“HOKLAS”	The Hong Kong Laboratory Accreditation Scheme, an accreditation scheme operated by Hong Kong Accreditation Service. The scheme is open to voluntary participation from any Hong Kong laboratory that performs objective testing and calibration falling within the scope of the aforesaid Scheme and meets the HOKLAS criteria of competence
“ISO 17025”	The international standard for quality systems in testing and calibration laboratories, used as the basis for accreditation of laboratories. It specifies the general requirements for the competence to carry out tests and/or calibrations, including sampling. It covers testing and calibration performed using standard methods, non-standard methods, and laboratory-developed methods
“PCM”	proprietary Chinese medicine, as defined in the Chinese Medicine Ordinance (Chapter 549, the Laws of Hong Kong)

FORWARD-LOOKING STATEMENTS

This prospectus contains, and the documents incorporated by reference herein may contain, forward-looking statements representing the Group's goals, and actual results or outcomes may differ materially from those expressed or implied. Such forward-looking statements are subject to certain risks, uncertainties and assumptions. Although the Group believes that its expectations are reasonable, the Group can give no assurance that these expectations will prove to have been correct, and actual results may vary materially. These forward-looking statements include, but not limited to, statements relating to:

- the Group's business and operating strategies and the various measures to implement such strategies;
- the Group's dividend distribution plans;
- the Group's capital commitment plans;
- the Group's operations and business prospects, including development plans for its existing and new businesses;
- the future competitive environment for the industries in which the Group operates;
- the regulatory environment as well as the general industry outlook for the industries in which the Group operates; and
- future developments in the industries in which the Group operates.

The words "will", "expect", "anticipate", "plan", "believe", "may", "intend", "ought to", "continue", "project", "should", "seek", "potential" and other similar expressions, as they relate to the Group (other than in relation to the Group's profits, results of operations and earnings), are intended to identify a number of these forward-looking statements. Such statements reflect the current views of the Group's management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Please refer to the sections headed "Risk Factors", "Business" and "Financial Information" in this prospectus for more details.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, the Group's financial condition may be adversely affected and may vary materially from the goals the Group has expressed or implied in these forward-looking statements. Except as required by applicable law, including the GEM Listing Rules, the Group undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information.

In this prospectus, statements of or references to the Group's intentions or those of the Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments. The Directors confirm that any forward-looking statements contained in this prospectus are made after due and careful consideration.

RISK FACTORS

Investors should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making any investment in the Shares in the Placing. If any of the possible events described below occur, the business operation, financial condition or results of operation of the Group could be materially and adversely affected and the market price of the Shares could fall significantly.

The Group believes that certain risks are involved in the Group's operations. Many of these risks are beyond the Group's control. These risks can be categorised into: (i) risks relating to the Group's business operations; (ii) risks relating to the industry; (iii) risks relating to intellectual property and (iv) risks relating to the Placing.

RISKS RELATING TO THE GROUP'S BUSINESS OPERATIONS

The Group's business depends significantly on the strength of its brands and reputation. The Group's failure to develop, maintain and enhance its brands and reputation may materially and adversely affect the level of market recognition of, and trust, in its products

The Group believes that the maintenance and enhancement of reputation of its proprietary brands, such as “御藥堂” (Royal Medic), and the management of the Distribution Facilitator's private label brands, namely, “Kiwi Lab” and “Health Proof”, are critical to the success of the Group's business. During the Track Record Period, the Group's revenue was derived substantially from sales of the products under the “御藥堂” (Royal Medic) brand.

Enhancing and maintaining the Group's brand recognition and reputation depend primarily on the perceived effectiveness and quality of the Group's products as well as the success of its marketing and promotion efforts. The Group has devoted significant resources to brand promotion in recent years, including advertising through television media, printed media and digital media, outdoor advertising, setting up SDCs at the Distribution Facilitator's stores, engaging well-known brand ambassadors and participating in fairs and exhibitions to increase the Group's brand recognition and improve brand image. However, the Group's marketing and promotion efforts may not be successful or may inadvertently negatively impact on the Group's brands. For example, if the public image or popularity of any of the brand ambassadors the Group engaged declines or the Group's brand image/reputation/products is/are harmed by negative publicity, regardless of its veracity, the Group's brand image may be damaged. If the Group fails to successfully market or promote the Group's brands or the Group's brands are tarnished, demand for the Group's current and future products may be materially and adversely affected.

Any failure to develop and introduce new products or gain market acceptance of the Group's new products may have a negative effect on the Group's business

The success of the Group's health supplements and beauty supplements and products depends, to a large extent, on whether the products it introduces to the market are well received by the market. The success of a new product depends on a number of factors, including accurately identifying market demand and consumers' preferences, efficacy, quality and price of the new product, as well as the effectiveness of marketing and advertising campaigns. In particular, the introduction of new products requires substantial investment of capital resources, research and development efforts. Due to the rapid

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changing nature of the health supplements and beauty supplements and products markets in Hong Kong, the Group may not be successful in anticipating market trends and developing new products that respond to such trends in a timely manner. Whilst in the past the Group has successfully developed, promoted and achieved market acceptance for the Group's new products, there is no assurance that the Group will be able to continuously develop new products in the future that will attract sufficient demand and/or be profitable. If any of the Group's new products is not well received by the market due to any of the aforesaid reasons, or the Group's new products are restricted by regulatory requirements or encounter quality problems, or for any other reasons, the Group may not be able to recoup the investment that it has made in developing such new products, the Group's business, operational results and financial condition may be adversely affected.

The Group's marketing and promotional activities are crucial to the success of its products, and if the Group fails to maintain or develop its marketing capabilities, the market share, brand recognition and reputation of the Group's products may be materially adversely affected

The success and lifespan of the Group's products depend significantly on the effectiveness of the Group's marketing and promotional activities. The Group uses television commercials as its primary marketing tool. In addition, the Group often uses a combination of different media in a target market to ensure broad coverage and penetration of its advertisements, such as newspapers, magazines, public transportation displays, billboards and the internet. The Group also organises in-store marketing and promotional activities at the Distribution Facilitator's stores from time to time, sets up SDCs in the Distribution Facilitator's stores, and engages brand ambassadors and has introduced a membership club to promote the Group's products. These various marketing activities are crucial to the success of the Group's products.

However, the Group's ability to maintain or develop its marketing capabilities can be adversely affected by various factors, such as the Group's ability to accurately identify consumer preference and effectively manage media resources and government regulations on advertisements. Any factor adversely affecting the scale and effectiveness of the Group's marketing and promotional capabilities may have an adverse effect on the market share, brand recognition and reputation of its products. In addition, any significant increase in the Group's marketing expenses, whether due to market factors or otherwise, may adversely impact the profitability of the Group's products.

The Group sells its products to the general public consumers mainly through the Distribution Facilitator, and failure to maintain its relationship with the Distribution Facilitator or otherwise expand the Group's distribution network may materially and adversely affect its business

Approximately 77.6% and 71.4% of the Group's revenue for the two years ended 31 March 2013 were sold through the Distribution Facilitator's shelves to the general public consumers and approximately 15.6% and 21.5% of the Group's revenue for the two years ended 31 March 2013 were sold through the SDCs located in the Distribution Facilitator's stores to the general public consumers. The Group's relationship with the Distribution Facilitator has started since 2005, at which time, the Group entered into the Trading Terms Agreement with the owner of the Distribution Facilitator. Since the execution of the Trading Terms Agreement, the Group's products are displayed and sold on the retail shelf space of the Distribution Facilitator's stores in Hong Kong. The Trading Terms Agreement will apply until superseded or amended by subsequent agreement confirmed in writing by the owner of Distribution Facilitator. To date, the Trading Terms Agreement remains in force.

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Reliance on the Distribution Facilitator carries the following risks:

- If the Group's relationship with the Distribution Facilitator is adversely affected for whatever reason resulting in the Distribution Facilitator restricting the sale of the Group's products in its stores, or ceasing to sell the Group's products altogether, the Group will need to source other channels, which may not have the same extensive network as the Distribution Facilitator, to sell its products to the general public consumers. As the Group does not have a long term trading arrangement with the Distribution Facilitator, the Group's relationship with the Distribution Facilitator can be terminated without the Group being given sufficient time to source alternative channels to sell the Group's products.
- The Group's products are sold primarily through the Distribution Facilitator. The Group has no control over the business plan or strategy of the Distribution Facilitator, including its expansion or downsizing plans, its store coverage and its customer retention plans. If the Distribution Facilitator does not continue to expand its stores, the expansion of the Group's sales may be affected. In addition, if the Distribution Facilitator's trading conditions deteriorate such that it downsizes its stores or cuts down its marketing and promotion plans, the sales of the Group's products may be adversely affected. In the worst case scenario, if the business of the Distribution Facilitator fails, the Group will lose substantially all its sales channels and will need to source other channels to sell its products to the general public consumers.
- There is no minimal sales target and no contractual assurance to purchase under the Trading Terms Agreement and private label agreements between the Group and the Distribution Facilitator. As a result, the Distribution Facilitator may reduce or cease to place any order with the Group for whatever reason at any time during the continuation of the agreements. In such case, the Group will lose substantially all its sales channels and will need to find other channels to sell its products to the general public consumers.
- Due to the disparity in the scale of operations between the Group and the Distribution Facilitator, the Company has no bargaining power over the sales of the Group's products at the stores of the Distribution Facilitator and limited control over the pricing and business strategies of the Distribution Facilitator.

If any of the above risks materialises, the Group's operational results and financial conditions will be adversely affected. There is no assurance that the Group will be able to source other distribution channels that is comparable to, or better than, the Group's existing arrangements with the Distribution Facilitator or at all, and that the Group's costs of business will be substantially affected as a result.

Please refer to the section of the prospectus headed "Business — Contractual arrangements with the Distribution Facilitator" for further details.

The Group ultimately relies on the general public consumers

The Group sells its products to the general public consumers through the Distribution Facilitator's stores. If the Group products cannot be sold, the Distribution Facilitator will ultimately return those products under the circumstances set out in the paragraph headed "Sales and Distribution —

RISK FACTORS

Distribution through shelves in the Distribution Facilitator's stores" in the section headed "Business" in this prospectus. Therefore, the risks associated with the successful sales of the Group's products remain, regardless of the fact that such products are distributed through the Distribution Facilitator.

The ultimate customers of the Group's products are the general public consumers who frequent the Distribution Facilitator's retail stores and purchase the Group's products, either incidental to their other purchases, or specifically seeking for the Group's products.

Therefore, while the Group ultimately relies on the success of the Group's brands, customer loyalty and quality of the Group's products, the Group also relies on the general public consumers' demand for the Group's products. If the Group fails to attract the general public consumers to purchase the Group's products or maintain the general public consumers' demand, the Group's business, operational results and financial condition may be adversely affected.

The Group has been substantially dependent on revenue derived from its leading product, Royal Medic CS-4, and this may continue to be the case. The Group's business, financial condition and results of operations would be materially and adversely affected if sales of Royal Medic CS-4 are to decline

The Group currently depends on the sales of its leading product, Royal Medic CS-4, for a substantial portion of its revenue. During the two years ended 31 March 2013, revenue from Royal Medic CS-4 amounted to approximately HK\$60.6 million and HK\$57.1 million, accounting for approximately 38.2% and 34.9% of the Group's total revenue, respectively. The Group anticipates to continue to derive a major part of its total revenue from Royal Medic CS-4 and hence the Group will remain susceptible to the effect of the change in demand for and the profitability of such product. If the market demand for Royal Medic CS-4 declines in the future due to introduction of substitute products at more favourable price or terms by the Group's competitors, or if the Group fails to sustain the popularity of this product, or faces new regulatory restrictions on the sales or related advertising activities, the Group's business, operational results and financial condition may be adversely and materially affected.

If the Group's application for registration of Royal Medic CS-4 as a PCM under the Chinese Medicine Ordinance is not approved, the Group will not be permitted to continue to sell the Group's leading product, Royal Medic CS-4

The sales, marketing and distribution of Royal Medic CS-4, being a PCM product, are regulated by the Chinese Medicine Ordinance. According to section 119 of the Chinese Medicine Ordinance, no person may sell, import or possess any PCM unless it is registered in accordance with section 121 of the Chinese Medicine Ordinance. An application for registration for Royal Medic CS-4 as a PCM under the Chinese Medicine Ordinance has been lodged with the Department of Health pursuant to section 121 of the Chinese Medicine Ordinance and an application serial number (HKNT-16492) was assigned to Royal Medic CS-4. For details, please refer to the paragraph headed "Licences, Approvals and Application" under the section headed "Business" in this prospectus.

As at the Latest Practicable Date, the registration procedures for Royal Medic CS-4 as a PCM under the Chinese Medicine Ordinance have not yet completed. A written confirmation has been received from the Department of Health confirming that a PCM provided with an HKNT number is allowed to be sold in the market. However, if the Group eventually fails to obtain the certificate of

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registration under section 121 of the Chinese Medicine Ordinance, the Group will not be permitted to sell, import or possess the Group's leading product, Royal Medic CS-4. As a result, the Group's business, operational results and financial condition may be adversely and materially affected.

In addition, the Group has entered into a long-term agreement to buy raw materials in powder form from a PRC supplier for the Group's best selling product, Royal Medic CS-4, effective from 15 June 2012 to 31 December 2021 and a supplemental agreement on 18 March 2013. The long-term sales and purchase agreement and the supplemental agreement divided the contract period into 10 periods and stipulated the periodic minimum purchase quantities for each period. Both parties are entitled to terminate the agreement only by reason of force majeure. The defaulting party who is in breach of the terms of the agreement shall compensate all economic losses suffered by the other party. Assuming (i) the Group is in breach on 15 June 2013 being the beginning of the current period; and (ii) there are 5% increase in electricity prices annually¹, the compensation for economic loss attributable to the PRC supplier is estimated to be the value of the minimum purchase quantities outstanding, which is approximately HK\$37.3 million. The amount of such compensation is an estimate for reference only and the amount of potential compensation is subject to changes in variables and assumptions at the relevant time. Please refer to the paragraph headed "Suppliers" in the section headed "Business" in this prospectus for further information.

The total research and development cost spent on Royal Medic CS-4 up to the Latest Practicable Date are amounted to approximately HK\$1.1 million. In the event that approval is not granted to the Group's application, the aforementioned research and development costs would be lost.

Any failure by the Distribution Facilitator to make payment to the Group or any disputes over, or significant delays in receiving such payments may materially and adversely affect the Group's cash flow and profitability

The Distribution Facilitator may make payment to the Group beyond the credit term to which they are granted. The Group had trade receivables of HK\$22.2 million and HK\$23.7 million, which were neither past due nor impaired as at 31 March 2012 and 2013, respectively. The default risk of the industry in which the Distribution Facilitator operates also has an influence on credit risk. For the two years ended 31 March 2013, the Group had certain concentrations of credit risk of 81.5% and 72.2%, respectively of the total trade and other receivables due from the Distribution Facilitator.

If the Distribution Facilitator, through whom the Group's products were sold to the general public consumers, was to become insolvent or significantly delay in making payments or otherwise unable or unwilling to settle their outstanding receivables in a timely manner or at all, the Group's liquidity could be materially and adversely affected and the Group would have to write off receivables or increase provisions against receivables, which could materially and adversely affect the Group's results of operations and financial position.

1. The annual increase in electricity prices is estimated based on the historical data from the National Development and Reform Commission of Jiangxi Province of the PRC.

RISK FACTORS

The Group faces intense competition, and if the Group fails to compete effectively, the Group may lose market share and the Group's results of operations may be adversely affected

The health supplements and beauty supplements and products markets are highly competitive and rapidly evolving. These markets are characterised by the frequent introduction of new products, price sensitivity and consumer's expectation on quality and functions. The Group faces competition from the Group's existing competitors as well as new entrants, including multinational companies as well as domestic manufacturers and distributors of health supplements and beauty supplements and products with similar functions or effects that can be used as substitutes for the Group's products.

The Group's competitiveness depends on a number of factors, including market awareness of its brands, the effectiveness of its marketing activities, the quality of its products, and the breadth and depth of its distribution and sales networks. Some of the Group's existing and potential competitors may have greater business resources, financial resources, experiences in developing and marketing health supplements and beauty supplements and products as well as other resources than the Group has. In addition, such competitors may have greater brand recognition, more established distribution networks, or more extensive knowledge of the Group's target consumers and target markets. There is no assurance that the Group's current or potential competitors will not provide products comparable or superior to those of the Group or adapt more quickly than the Group to the evolving industry trends or changing market preferences and requirements or consumer spending habits. Furthermore, competition may lead the Group's competitors to increase substantially their advertising expenditure and promotional activities or to engage in irrational or predatory pricing behaviour.

It is also possible that there will be consolidation amongst the Group's competitors or that alliances may develop amongst competitors which could rapidly acquire significant market share. The Group also cannot assure that any third party will not actively engage in activities, whether legal or illegal, designed to undermine the Group's brands or to influence consumers' confidence in the Group's products.

If the Group is unable to maintain its competitive position or otherwise respond to competitive pressure effectively, its sales as well as market share may be reduced and its operating results may be adversely affected. Intense competition may also lead to pricing pressure on the Group's products, which could adversely affect its turnover and profitability.

The Group did not enter into any exclusivity agreement with its suppliers

The Group did not enter into any exclusivity agreement with its suppliers requiring that the relevant raw materials or semi-finished products would be supplied to the Group exclusively. As a result, third parties may purchase the same raw materials or semi-finished products from the Group's suppliers and produce and sell similar or equivalent products. This might result in a loss in sales of the Group's products and thus, the Group's business, operating results and financial condition may be adversely affected.

RISK FACTORS

If the Group experiences a significant increase in sales return, the Group's costs may substantially increase and the Group's business, operational results and financial condition may suffer materially

During the Track Record Period, the Group has accepted products returns from the Distribution Facilitator under normal circumstances (which include unsold, damaged and expired products), unsold products after a special sale event and products returned for repackaging purpose in order to conform with the laws and regulations in force. The Group also allows its other distributors and/or the general public consumers to return defective or expired products. For further details, please refer to the paragraph headed "Goods return and provision policy" under the section headed "Business" in this prospectus. During the two years ended 31 March 2013, the Group's sales return under normal circumstances were HK\$2.7 million and HK\$1.1 million, accounting for approximately 1.7% and 0.7% of the Group's total turnover, respectively. If the Group experiences a significant increase in sales return, the Group may have to accrue a greater expenses for potential product return, which will result in a substantial increase in the Group's cost of sales. As a result, the Group's business, operational results and financial condition may suffer materially.

The Group's products may cause unexpected or undesirable side effects or injury to consumers that may result in costly product recalls, product liability claims and/or adverse publicity which may lead to severe reputational damage, monetary losses or lawsuits

As the Group's products are designed for human consumption, the Group may face a number of consequences, including product liability claims or product recalls, removal of regulatory approvals for such products and exposure to lawsuits, if the use of the Group's products is alleged to have resulted in side effects or injury.

The Group's products contain various ingredients, some of which or the combination of which may cause undesirable side effects or injuries to consumers, which the Group is not aware of. Similarly, some of the raw materials the Group uses may cause undesirable side effects or harm that are unknown to the Group. If the Group's products cause any serious side effect or injury, or if the Group's products are perceived to cause such side effect or injury, the Group's products may have to be recalled from the market, which could lead to severe reputational damage, monetary loss or lawsuits. This may also result in negative publicity which may further damage the reputation of the Group's brands and products. During the Track Record Period, the Group has not experienced any product recalls or product returns that had a significant impact on its business and operations. Nonetheless, there is no assurance that the Group's products will not have undesirable side effects on consumers in the future. The discovery of severe side effects of products manufactured or sold by the Group's competitors may also adversely affect the sales of the Group's products that have similar ingredients. If consumers lose confidence in the Group's brands and/or products, the Group's business, operational results and financial condition may be materially and adversely affected.

Negative publicity of the Group's products, or of similar products sold by other companies, may have a material adverse effect on its business

The sales of the Group's products, to a large extent, depend on consumer perception towards the quality, efficacy and safety of the Group's products. Consumer perception can be significantly influenced by factors such as scientific research or findings, public commentary or articles published or posted on printed media and internet. In the past, there has been some unfavourable publicity about the

RISK FACTORS

Group, including public media coverage on regulatory actions and penalties against the Group or consumer complaints of the Group's products. The Group is also aware of communications and contents on certain internet sites that questioned the efficacy and benefits of the Group's products or claim that the Group's products caused undesirable side effects. The Group did not incur any material costs during the Track Record Period in handling such claims.

Research reports or publicity that are perceived as unfavourable or that question the quality, efficacy or safety of the Group's products or similar products could have a material adverse effect on the demand for the Group's products and the Group's business and results of operations. Such adverse publicity could arise even if the ineffectiveness of, or the adverse effects associated with, such products have resulted from consumers' failure to consume such products appropriately or as directed. Negative publicity, even if unfounded, will have an adverse impact on the Group's business and may damage its brands and reputation as well as lead to scrutiny of the Group's products by the regulatory or government authorities and potential regulatory actions restricting the Group's ability to advertise or sell its products.

The Group may be unable to effectively manage its growth and growth strategies, which may materially and adversely affect the Group's business, operational results and financial condition

The Group anticipates that it will continue to grow through organic growth and acquisition. Managing the Group's growth has resulted in, and will continue to result in, significant demands on the Group's management and its administrative, operational and financial infrastructure. The Group's ability to manage future growth will depend on the Group's ability to effectively implement and improve management, operational and financial information systems on a timely basis and to expand, train, motivate and manage the Group's workforce. The Group's current and planned operations, personnel, systems, internal procedures and controls may not be adequate to support the Group's future growth. If the Group is unable to manage its growth effectively, the Group may not be able to take advantage of market opportunities, execute its business strategies or respond to competitive pressures. It may also lead to increased costs, declined sales and reduced profitability, which could in turn have a material adverse effect on the Group's business, operational results and financial condition.

The Group may not be able to implement its business strategies on time or within its budget or at all

The successful implementation of the Group's business strategies is subject to various uncertainties and contingencies, such as continued growth of the health supplements and beauty supplements and products markets in Hong Kong, availability of funds, competition and government policies. Factors such as delay in the delivery of raw materials, labour disputes, compliance with laws and regulations, delays in securing requisite government approvals, economic downturn or changes in market conditions, may delay or impede the implementation of the Group's business strategies. Any delay or failure to successfully implement the Group's business strategies could result in the loss or delay in sales, increase in financing costs, and failure to meet profit and earnings projections, any of which may adversely affect the Group's business, operational results and financial condition.

RISK FACTORS

The Group may not be able to successfully implement its growth strategy to further strengthen the Group's portfolio by collaborating with the CUCAMed to develop products

The Group intends to use net proceeds of approximately HK\$40 million that it receives from the Placing to fund the Group's cooperation with a university.

In July 2013, the Group entered into a cooperation agreement with CUCAMed Company Limited (中大中醫藥科技有限公司) (“CUCAMed”), a wholly-owned subsidiary of The Chinese University of Hong Kong Foundation Limited, to promote and sell PCM products and health supplements developed by CUCAMed under the brand, “LEGEND”. For the details of the cooperation agreement, please refer to the paragraph headed “Collaboration with external research partners” under the “Business” section in this prospectus.

There is no assurance that the commercialisation by the Group of the new products researched and developed by CUCAMed will attract sufficient demand and/or be profitable. In addition to the market acceptance of such new products, if a dispute arises between CUCAMed and the Group in connection with the performance of either party's obligations and the party cannot resolve the differences in a timely manner, the operation of the new wholly-owned subsidiary may be materially and adversely effected. In the event that the Group is unable to manage the above risks effectively to develop such new products under the “LEGEND” brand, the Group's expansion strategy may not yield the desired results, which may in turn have a material and adverse effect on the business prospects, results of operations and financial condition.

The expansion of the Group's distribution and retail network may not be as successful as the Group expects

As part of the Group's business strategies, the Group plans to expand its distribution and retail network to grow the Group's business. However, the success of the Group's expansion plan is subject to numerous factors including the following:

- the availability of adequate management and financial resources;
- the availability of suitable distributors and retail stores;
- the Group's ability to negotiate favourable cooperation terms with its distributors; and
- the Group's ability to hire, train and retain skilled personnel to manage its distribution and sales network.

Furthermore, the Group may fail to anticipate and address competitive conditions in the newly expanded distribution and retail network that are different from those in the Group's existing markets. Accordingly, the Group may not be able to achieve its expansion goals or effectively integrate new distributors and retail stores into the Group's existing network. If the Group encounters difficulties in expanding the Group's distribution and retail network, its growth prospects may be impacted, which may in turn have a material adverse effect on the Group's business, operational results and financial condition.

RISK FACTORS

The Group's high profit margins may not be sustainable and may be subject to reduced profit margins, and if the Group is unable to successfully replace the products of lower profit margins with those of higher profit margin, the Group's business, financial condition and results of operations may suffer

During the two years ended 31 March 2013, the Group had gross profit margins of approximately 79.6% and 78.8%, respectively, and net profit margins of approximately 27.1% and 24.0%, respectively. The Group's high profit margin is primarily attributable to the Group's product mix containing predominantly high profit margin products. The continued success of the Group is affected by numerous factors, including the effectiveness of the Group's marketing and promotional activities, competition from other similar products, change of market demand and ultimately the general public consumers' preference, market perception and publicity about the Group's products.

In addition, as market conditions change and as the Group makes significant expenditures related to the marketing and expansion of the Group's business, its profit margin may be adversely affected. For example, the Group's profitability for future fiscal years may be negatively impacted by increase in cost of raw materials, packaging materials, selling and distribution costs arising from the expansion of the Group's distribution and sales network, advertisement expenses and competition strategies adopted by the Group's competitors. Furthermore, the Group may not be able to sustain the same level of gross profit margin as the Group continues to introduce new products to the market. Consequently, the Group cannot assure the investors that it will be able to maintain its high profit margin.

Production of certain of the Group's health supplements and beauty supplements and products relies on the supply of quality natural raw materials

Certain of the Group's health supplements and beauty supplements and products rely on the supply of raw materials, which originate from natural ingredients of a suitable quality whose properties are related to the regions and climatic conditions in which they are grown. The quality, availability and prices of these natural ingredients are dependent on and are closely affected by weather conditions and other seasonal factors, which may have an impact on the yields of such natural ingredients each year. The supply, prices and quality of raw materials may fluctuate according to market conditions, or any drop in quality of the raw materials, which the Group uses, may impact on the Group's costs of sales and the quality of its products.

Furthermore, although the Group has a strict quality control system for the procurement of its raw materials and packaging materials, the Group cannot assure the investors that its suppliers will not inadvertently contaminate the raw materials or provide the Group with substandard raw materials or packaging materials that would adversely impact on the quality of the Group's products. If the Group experiences any quality or safety problems in relation to its raw materials, the Group's reputation and business may suffer.

RISK FACTORS

If the products and inventories of the Group become obsolete, the future performance and operating results of the Group will be adversely affected

Rapid changes in industry standards and emergence of new or substitute products in the industry and the markets for the Group's products will render its products and inventories obsolete. The Group's products and inventories may also become obsolete as a result of adverse changes in demands and consumer preference. If the Group fails to effectively manage its inventory levels, the Group's business, operating results and financial condition may be materially and adversely affected.

The Group's success and business operations are largely dependent on the Group's continuing efforts of the Group's senior management team and other key personnel and loss of any of their services may materially harm the Group's business

The Group believes that its success depends upon the continued contributions of its senior management and other key personnel. The Directors and the senior management of the Group possess expertise and experience in the Group's industry, operations and business that are difficult to replace. The Group cannot assure the investors that the services of such personnel will continue to be available or that the Group will be able to replace any such personnel with managers who have similar knowledge or experience. If one or more of the Group's key personnel are unable or unwilling to continue in providing services to the Group or if the Group fails to continue to attract and retain additional personnel of suitable experience and qualifications, the Group's business may be disrupted and the Group's business, operational results and financial conditions may be adversely affected.

If the Group fails to accurately project demand for the Group's products, the Group may encounter inadequate supply or oversupply, which would materially and adversely affect the Group's financial condition and results of operations, as well as damage the Group's reputation and brands

The Group's distributors typically order the Group's product on an order by order basis. The Group projects demand for its products based on its marketing plan and sales report from the Distribution Facilitator and its inventory levels.

If the Group overestimates such demand, the Group may purchase more raw materials than required. If the Group underestimates demand, the Group's suppliers may purchase insufficient raw materials than required to meet the demand and may result in lost sales. The Group may fail to accurately forecast demand and coordinate the Group's procurement and production to meet demand on a timely basis. The Group's inability to accurately predict market demand and to timely meet such demand could materially and adversely affect the Group's financial conditions and results of operations as well as damage the Group's reputation.

Any disruption or suspension to the supply of/or any increase in the prices of the Group's raw materials or packaging materials or subcontracting services may adversely affect the Group's production, turnover and profitability

The Group may experience a shortage in the supply of certain raw materials or packaging materials in the future, which could materially and adversely affect production of the Group's products and results of operations. The production of the health supplements and beauty supplements and products of the Group relies on the supply of raw materials and packaging materials from the Group's suppliers. For the

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two years ended 31 March 2013, the Group's total purchase of raw materials and packaging materials as well as total subcontracting charges amounted to approximately HK\$29.4 million and HK\$28.3 million, respectively, while the Group's purchases from its five largest suppliers accounted for approximately 53.4% and 64.4% of its total purchases respectively, and the Group's purchases from its largest supplier accounted for approximately 22.6% and 22.0% of its total purchases, respectively. Although the Group has entered into a long-term contract with one of its suppliers, it did not enter into any long-term contract with its remaining suppliers during the Track Record Period. Some of the Group's suppliers may, without notice or penalty, terminate their relationship with the Group at any time. If any supplier is unable or unwilling to supply raw materials or packaging materials to the Group in the required quantities and at acceptable prices, there is no assurance that the Group will be able to find replacement on satisfactory terms in time, or at all. If the Group is unable to locate or develop alternative sources, it may result in delays or reductions in its production, sales or profit margins.

In addition, the Group is vulnerable to any increases in the prices of raw materials and packaging materials. The prices for the Group's raw materials and packaging materials are determined principally by market forces and may fluctuate or be affected by inflation in the future. For example, the availability and prices of the raw materials for the Group's products may be affected by weather conditions and other seasonal factors. The Group cannot assure the investors that the Group will be able to offset all price increases by raising the prices of the Group's products and the Group may also lose competitive advantage if the Group increases the prices of the Group's products significantly. In the event that the prices of raw materials and packaging materials increase in the future and the Group cannot pass on such increases to the Group's distributors and/or the general public consumers, the Group may not be able to maintain its current gross profit margins and the Group's business, operational results and financial condition may be materially and adversely affected.

Expansion in international markets may expose the Group to certain risks

Currently the Group sells substantially most of its products in Hong Kong. A small portion of the Group's products are also available in Macau and Taiwan. The Group made sales of approximately HK\$1.8 million around November 2011 to a chain of health and beauty stores in Singapore which was owned by the owner of the Distribution Facilitator, and there was no subsequent order. The transaction was initiated by the owner of the Distribution Facilitator. The Group has not started any operation in Singapore. The Group is planning to expand its business in Taiwan and may expand into other markets in the future. The marketing, distribution and sales of the Group's products abroad may expose the Group to certain risks, such as exposure to currency fluctuations, increased costs associated with maintaining marketing, distribution and sales activities in various countries, potential imposition of trade or foreign exchange restrictions or increased tariffs and changes in or interpretations of foreign regulations that may limit the Group's ability to sell certain products in overseas markets.

If the Group is unable to effectively manage these risks, the Group's ability to conduct or expand the Group's business overseas would be impaired, which may in turn have a material adverse effect on the Group's business, operational results and financial condition.

The Company is a holding company and relies on dividend payments from its subsidiaries

The Company is a holding company and conducts substantially all of the Group's business through its operating subsidiaries. As a result, the Group's ability to pay dividends depends on dividends and other distributions received from these subsidiaries. If the Company's subsidiaries incur debt or loss, it

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may impair their ability to pay dividends or other distributions to the Company, which may adversely affect the Company's ability to pay dividends to its Shareholders. In addition, restrictive covenants in bank credit facilities, indentures, joint venture agreements or other arrangements that the Group may enter into in the future may also restrict the ability of the subsidiaries to pay dividends or make distributions to the Company. These restrictions may reduce the amount of dividends or other distributions that the Company receives from its subsidiaries, which in turn would restrict the Company's ability to pay dividends to its Shareholders.

The Group has limited insurance coverage, and any claims beyond the Group's insurance coverage may result in the Group incurring substantial costs and a diversion of resources

The Group's business, operational results and financial condition may be adversely affected due to the occurrence of typhoons, earthquakes, floods, diseases, plagues, droughts, fire, acts of terror or other natural disasters or similar events at the Group's offices and warehouse or sources of raw materials for the Group's products. Should an accident occur, it may cause significant property damage and personal injuries. The Group does not carry any business interruption insurance or third party liability insurance for environmental damage arising from accidents at the Group's offices and warehouse. In addition, there are certain types of loss, such as from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters for which the Group cannot obtain insurance at a reasonable cost or at all. Should an uninsured loss or a loss in excess of insured limits occur, the Group may suffer from financial loss, damage to the Group's reputation as well as loss of future revenue anticipated to be derived from the business activities conducted at those properties. Any material uninsured loss may materially and adversely affect the Group's business, financial condition and results of operation.

If the Group fails to sustain an effective internal control system, the Group may not be able to accurately report the Group's financial results or prevent fraud, and the Group's business, operational results, financial condition and reputation may be materially and adversely affected

The Group's internal controls will be essential to the integrity of the Group's business and financial results once the Group becomes a public company upon Listing and the Group's public reporting obligations are expected to place a strain on the Group's management, operational and financial resources in the future. The Group's management may need to invest significant time and the Group may incur additional costs if the Group encounters any difficulty in maintaining or improving the Group's internal control system. Effective internal control is necessary for the Group to produce reliable financial reports and prevent fraud. As such, if the Group is unable to maintain effective internal control, investors may lose confidence in the reliability of the Group's financial statements, which in turn may materially and adversely affect the Group's business, operational results, financial condition and reputation.

The Group may require additional capital and if the Group is unable to raise additional capital on terms favourable to it, or at all, the Group's ability to grow its business may be restricted

The Group believes that its current cash and cash equivalents, further cash flow from operations and the proceeds from the Placing are sufficient to meet the Group's projected capital requirement in the foreseeable future. However, the Group may need to sell additional equity or obtain debt securities or credit facility if the Group's expenditures exceed the Group's current expectations. The sales of additional equity securities could lead to dilution to the Shares held by the Group's Shareholders. The incurrence of indebtedness may result in increased debt service obligations and may require the Group

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to agree to operating and financing covenants that would restrict the Group's operations. Financing may not be available in amounts or on terms acceptable to the Group, if at all. If the Group is unable to raise additional funds on favourable terms, or at all, the Group's ability to grow its business and develop its product offerings may be restricted.

The Group has records of non-compliance with Hong Kong Companies Ordinance and Inland Revenue Ordinance

Before and during the Track Record Period, certain Hong Kong subsidiaries of the Company had inadvertently failed to comply with the regulatory requirements under (a) the Companies Ordinance to lay the audited accounts in annual general meetings within the time limit specified under section 122 of the Companies Ordinance and to make timely filings in relation to certain company secretarial matters with the Companies Registry of Hong Kong and (b) the Inland Revenue Ordinance to make timely filings of tax returns, due to the unintended and inadvertent oversights of and the mistakes as to the necessity of compliance with the time limit requirements under the relevant sections of the Inland Revenue Ordinance made by an employee of the Group who was responsible for looking after these matters at the material times.

In respect of the failure to make timely filings under the Companies Ordinance for the aforesaid company secretarial matters with the Companies Registry of Hong Kong, a company and its respective officers who failed to make timely filings may be liable to a fine of levels 3 to 5 (HK\$10,000 to HK\$50,000) and a daily default fine of HK\$300 or HK\$700 for each late filing. The aggregate amount of the potential fine for the aforesaid late filings is estimated to be approximately HK\$3,627,000. Should the Group be fined by the Companies Registry of Hong Kong, the Group's financial position may be adversely affected. For details of the non-compliance, please refer to the paragraph headed "Litigation and Compliance" under the section headed "Business" in this prospectus.

If the wordings of the historical packaging, labels and/or inserts of the Group's products amount to claims of having "medicinal effects", the Group will be subjected to various legislations in relation to pharmaceutical products and medicine in Hong Kong

Some of the words in the historical packaging, labels and/or inserts of the Group's products may amount to claims of having "medicinal effects". For details, please refer to the paragraph headed "Litigation and Compliance" under the section headed "Business" in this prospectus. If the Department of Health is of the view that words of the Group's products amount to claiming medicinal effects, such products will be classified as pharmaceutical products and required to register with Department of Health and subjected to various legislations in relation to pharmaceutical products and medicine in Hong Kong.

Since none of the Group's products are registered with the Department of Health as pharmaceutical product at the Latest Practicable Date, the Group may contravene section 28A of the Pharmacy and Poisons Ordinance (Chapter 138, the Laws of Hong Kong) ("**Pharmacy and Poisons Ordinance**") for importing and exporting pharmaceutical products without registration and regulation 36 of the Pharmacy and Poisons Regulations (Chapter 138A, the Laws of Hong Kong) ("**Pharmacy and Poisons Regulations**") for failing to register. As advised by the Hong Kong Legal Counsel, the maximum penalty for contravening section 28A of Pharmacy and Poisons Ordinance is a fine of HK\$100,000 and imprisonment for two years and that for contravening regulation 36 of the Pharmacy and Poisons Regulations is a fine of HK\$100,000 and imprisonment for two years. Although the Hong Kong Legal

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Counsel advised the chance of such contravention is slim in his opinion, the possible violations of the Pharmacy and Poisons Ordinance and Pharmacy and Poisons Regulations may adversely affect the Group's reputation and image and therefore the Group's business, operational results and financial condition may also be adversely affected.

RISKS RELATING TO THE INDUSTRY

Slow down in health supplements and beauty supplements and products industry and any changes in consumer preferences and demand may materially and adversely affect the Group's business prospects and results of operations

The Group's products are subject to the level of growth of the health supplements and beauty supplements and products industry and any changes in consumer preferences, demand and spending habits. The Group's performance depends on factors which may affect the level and pattern of consumer spending in general, and on PCM health supplements products in particular. Consumer preferences and demand may shift away from such products for various reasons, including but not limited to:

- changes in consumer belief that such products may be effective in achieving their claimed benefits;
- decline in consumer confidence and consumer perceptions of such products due to negative publicity; and
- a general decrease in consumer preferences for PCM health supplements as compared to other types of products that claim similar benefits, such as western medications.

Moreover, a general decline in the consumption of the Group's products may occur as a result of a slowdown in the health supplements and beauty supplements and products industry or any changes in industry trends, consumer preferences and spending habits at any time and the Group's future success will depend partly on the Group's ability to anticipate, adapt to such changes. If the Group is unable to anticipate or respond to such changes in a timely manner or develop products that could successfully meet the constantly changing market trend and demand, the Group's competitiveness and the Group's sales may decrease. Any of these events could adversely affect the Group's competitive advantage and market share, resulting in a material adverse effect on the Group's business, operational results and financial condition.

The recent global financial crisis and economic downturn, if continued or prolonged, may have a material and adverse effect on the Group's business, results of operations and financial condition

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowing of economic growth globally and a drop in consumer expenditure in general, substantial volatility in equity securities markets, volatility and tightening of liquidity in credit markets. Economic downturn has also affected the purchasing power of the customers and their demands.

The Group's business is closely related to the economic condition of Hong Kong, global economic and market conditions. Slowing economic growth or a recession could have a material adverse effect on the Group's business, operational results and financial condition as well as affecting the Group's

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expansion strategies. Any deterioration of the economy, decrease in disposable consumer income or public perception that a slowdown or recession may occur, may affect consumer preferences and spending, which in turn decrease the demand for the Group's products, thereby adversely affecting the Group's sales and profitability. For example, during periods of slowing growth or recession, consumers will tend to become more budget conscious and sensitive to the amount they are willing to spend on non-essential items. As the Group's products are ultimately sold to the general public consumers in the retail market, a drop in consumer spending power may lead to a drop in the amount of purchases of the Group's products.

It is difficult to predict how long these conditions will exist. These developments may continue to present risks for an extended period of time for the business, including a potential slowdown in the sales to distributors. If this economic downturn continues, the Group's business, operational results and financial condition may be adversely affected.

Political and economic risks associated with conducting business in Hong Kong

Substantially all of the Group's business operations are conducted in Hong Kong, and substantially all of the Group's revenue derives from sales in Hong Kong. Accordingly, the Group's business, operational results and financial condition and prospects are affected significantly by economic, political and legal developments in Hong Kong. Hong Kong is a special administrative region of the PRC and the basic policies of the PRC regarding Hong Kong are reflected in the Basic Law (基本法), Hong Kong's constitutional document, which provides Hong Kong with a high degree of autonomy and executive, legislative and independent judicial powers, including that of final adjudication under the principle of "one country, two systems". However, there is no assurance that there will not be any changes in the economic, political and legal environment in Hong Kong in the future. The Group's business and operations may be affected should there be any material adverse change in the stability and development of the economy, and political and legal environment of Hong Kong.

Any outbreak of any communicable disease or occurrence of any similar adverse public health developments may severely disrupt the business and operations of the Group

Any outbreak of any communicable disease or occurrence of any adverse public health developments could have a material and adverse effect on the overall business environment in Hong Kong and overseas, which in turn may have a material adverse effect on the consumer preferences and spending habit, thereby resulting in decrease in demand for the Group's products. Further, if the Group's employees or any of the Group's suppliers are affected by any communicable disease outbreaks, there may be shortage or delay in supply of raw materials or its products. These could materially and adversely affect the Group's business, operational results and financial condition.

RISKS RELATING TO INTELLECTUAL PROPERTY

The Group's brands and products may be subject to counterfeiting or imitation, which may adversely impact its business operational results and financial condition

Counterfeit products are usually sold at much lower prices than the authentic products and are very similar in appearance to the authentic products, which can easily cause confusion to the general public consumers. Any occurrence of counterfeiting or imitation of the Group's products may adversely affect the Group's reputation and brand name, resulting in loss of consumer confidence in the Group's brands,

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which in turn have an adverse impact on the Group's business operational results and financial condition. For example, if consumers purchase counterfeit products that are in direct competition with the Group's authentic products, the Group may suffer loss of sales for those affected products. In the event that counterfeit products illegally sold under the Group's brand name cause any side effects or injuries to the general public consumers, the Group may be associated with negative publicity resulting from such incidents. Furthermore, any legal actions relating to counterfeiting or imitation of the Group's products may be expensive and will divert the management's attention as well as other resources away from the Group's business.

The Group has not in the past experienced counterfeiting and imitation of the Group's products. However, the Group cannot assure the investors that counterfeiting or imitation of the Group's products will not occur in the future, and there is a possibility that the Group may not be able to detect or address the problem effectively. Please refer to the paragraph headed "Strategic brand positioning and strong brand recognition" under the section headed "Business" in this prospectus for further details.

Third parties may assert or claim that the Group has infringed their intellectual property rights, which may damage the Group's reputation, disrupt its business and/or cause the Group to incur substantial legal costs

Intellectual property rights such as trademarks are important to the Group as they protect brand images, product formulations and other valuable rights. The Group's competitors or other third-parties may have intellectual property rights and interests which could potentially come into conflict with the Group's intellectual property rights and interests. In addition, the Group may not be aware of intellectual property applications or registrations relating to the Group's products or business operations that may give rise to potential infringement claims against the Group. Legal action involving intellectual property claims is expensive and time-consuming and could divert management's attention from the Group's business. Please refer to the paragraph headed "Intellectual Property Rights" under the section headed "Business" in this prospectus for further details.

If any trademark or other intellectual property claims against the Group are successful, the Group may be required to pay substantial damages, cease manufacturing, distributing or selling products that are adjudicated to have infringed third-parties' intellectual property rights or expend significant resources to redesign the Group's products so that they do not infringe third-parties' intellectual property rights or the Group may be required to obtain relevant licences to avoid further infringements. As a result, the Group's business and operations could be significantly disrupted and a substantial part of the Group's financial resources could be used to defend such actions. Any intellectual property claim or litigation, whether the Group ultimately wins or loses, could damage the Group's reputation and have a material adverse effect on the Group's business, operational results and financial condition.

Further, the Group is unable to register its brand, "御藥堂" (Royal Medic) in Taiwan due to general refusal of registration of certain words such as "御" and "堂". The Group decides to use such trademarks until and unless its rights to use such trademarks are challenged by any third parties. However, any registration and use of such trademarks and other related intellectual property rights by others could harm the Group's image and competitive advantages.

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RISKS RELATING TO THE PLACING

The Group's net profit for the year ending 31 March 2014 would be adversely affected by the listing related expenses

Based on the middle Placing Price of HK\$0.92 per Share, it is estimated that an aggregate amount of approximately HK\$26.3 million would be paid to the Underwriters and various professional parties as Listing expenses. The aggregated listing related expenses will be treated as follows: (i) approximately HK\$17.2 million will be charged to profit or loss, representing approximately 65.4% of the total listing related expenses; and (ii) approximately HK\$9.1 million will be accounted for as a deduction from equity, representing 34.6% of the total listing related expenses. Of the estimated HK\$17.2 million that would be charged to profit and loss, HK\$2.8 million and HK\$1.0 million were accounted for the two years ended 31 March 2012 and 2013, respectively, leaving a balance of HK\$13.4 million to be charged to profit and loss for the year ending 31 March 2014. In comparison to the reported profits of HK\$39.3 million for the year ended 31 March 2013, the HK\$13.4 million listing related expenses is equivalent to 34.1% of the net profit for the year ended 31 March 2013. It must be emphasised that amount of such listing related expenses is a current estimate for reference only and the final amount to be recognised to profit or loss of the Group for the year ending 31 March 2014 is subject to audit and changes in variables and assumptions at the relevant time.

The Underwriting Agreement can be terminated

Prospective investors of the Placing Shares should note that the Underwriters are entitled to terminate its obligations under the Underwriting Agreement by the Lead Manager (for itself and on behalf of the Underwriters) giving notice in writing to the Company upon the occurrence of any of the events stated in the sub-section headed "Grounds for termination" under the section headed "Underwriting" of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, pandemic, act of terrorism, earthquake, strike or lock-out.

There has been no previous public market for the Shares and the liquidity, market price and trading volume of the Shares may be volatile

Prior to the completion of the Placing, the Shares have not been listed or quoted on any stock exchange or open market. The market price of the Shares to be traded on GEM was a result of negotiations among the Sole Sponsor (on behalf of the Underwriters) and the Company and may differ from the Placing Price. Accordingly, investors should not treat the Placing Price as an indicator of the market price of the Shares to be traded on GEM.

In addition, the market price and trading volume of the Shares may be affected or influenced by various factors upon listing, including but not limited to, variations in the Group's operating results, income, profit and cash flow, the regulatory development in Hong Kong affecting the Group, its distributors or its competitors, strategic alliances or acquisitions, fluctuations in the market prices for the Group's products or raw materials, litigation, changes of senior management of the Group, the depth and liquidity of the market for the Shares and general economic conditions. There is no assurance that such factors will or will not occur and it is difficult to quantify the impact on the Group and on the trading volume and market price of the Shares.

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There is no assurance that an active trading market of the Shares will develop

There has been no public market for any of the Shares prior to the Placing. There is no assurance that an active trading market for the Shares on GEM will develop, or, if it does develop, that it will be sustained following completion of the Placing, or that the market price of the Shares will not fall below the Placing Price.

The interests of the Controlling Shareholder(s) may not always coincide with the interests of the Company and those of its other Shareholders

Immediately upon the completion of the Placing, the Company anticipates that its Controlling Shareholder(s) will indirectly own, in the aggregate, approximately 75% of the Shares. Therefore, the Controlling Shareholder will be in a position to control matters requiring approval by Shareholders and thereby exercise significant influence over the operations and business strategy of the Group, and may have the ability to require the Group to effect corporate transactions irrespective of the desires of its other Shareholders, including but not limited to approval of potential mergers or acquisitions, asset sales, election of directors, making of investment decisions and payment of dividends and other distributions. The interests of the Controlling Shareholder(s) may not always coincide with the Group or those of its other Shareholders' best interests and the Controlling Shareholder(s) have no obligation to consider the interests of the Group or the interests of its other Shareholders. If the interests of the Controlling Shareholder(s) conflict with the interests of the Group or its other Shareholders, or if the Controlling Shareholder(s) choose to cause the Group's business to pursue strategic objectives that conflict with the interests of the Group or its other Shareholders, the Group or those other Shareholders, may be disadvantaged as a result.

Shareholders and investors may face difficulties in protecting their interests because the Company is incorporated under the laws of the Cayman Islands which may be different from the laws of Hong Kong or other jurisdictions

The Company is incorporated in the Cayman Islands and the Company's affairs are governed by the Memorandum of Association, the Articles of Association, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands law on protection of minorities is set out in paragraph 3(f) in Appendix IV to this prospectus.

Certain statistics and facts in this prospectus have not been independently verified and should not be unduly relied upon

Certain statistics and facts set out in this prospectus have been extracted from various official sources and publications or other sources, which may not be consistent with other information available. The Group believes the sources of these statistics and facts are appropriate for such statistics and facts and has taken reasonable care in extracting and reproducing such statistics and facts. The Group has no reason to believe that such statistics and facts are false or misleading or that any fact has been omitted that would render such statistics and facts false or misleading. The Group, however, cannot guarantee the quality or reliability of these materials. Also, while the Group has exercised reasonable care in reproducing the statistics and facts contained in this prospectus, these statistics and facts have not been

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independently verified by the Group, the Sole Sponsor, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other party involved in the Placing and therefore, the Group makes no representation as to the accuracy or completeness of these statistics and facts, as such these statistics and facts should not be unduly relied upon.

Sales or perceived sales by existing Shareholders of a substantial number of the Shares in the public market after the Placing may materially and adversely affect the prevailing market price of the Shares

The Company cannot assure the investors that its substantial Shareholders or Controlling Shareholder(s) will not dispose of the Shares held by them after the Placing. The Group cannot predict the effect, if any, of any future sales of its Shares by any of its substantial Shareholder or Controlling Shareholder may have on the market price of Shares. Sales of a substantial amount of Shares by any of the Group's substantial Shareholder or Controlling Shareholder or the issuance of a substantial amount of new Shares by the Group, or the market perception that such sales or issuance may occur, may materially and adversely affect the prevailing market price of Shares.

Historical dividends may not be indicative of the amount of future dividend payments or the Group's future dividend policy

Total dividends of approximately HK\$31.0 million and HK\$40.0 million were declared during the two years ended 31 March 2013, respectively. In addition, subject to various factors to be considered by the Board of Directors, it currently intends to recommend at the relevant Shareholders meetings an annual dividend of no less than 40% of the Group's net profit available for distribution to the Shareholders in the foreseeable future. However, the Group's ability to pay dividends or make other distributions to its Shareholders is subject to the Group's future operations and earnings, capital requirements and surplus, its future financial performance, cash flow position and any other factors which the Directors may consider relevant. The Group may not be able to distribute dividends to its Shareholders as a result of the abovementioned factors. Therefore, the Group's historical dividend distribution should not be used as a reference for its dividend policy, nor as a basis to determine the level of dividends that may be declared and paid in the future. There is no assurance that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. The Group may not be able to record profits or have sufficient funds above its funding requirements, other obligations and business plans to declare dividends to its Shareholders.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V, the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that:

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

The Placing Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein shall not be relied upon as having been authorised by the Company, the Sole Sponsor, the Underwriters, any of their respective directors, officers, employees, affiliates and/or representatives or any other person involved in the Placing.

Copies of this prospectus are available, for information purposes only, at the office of WAG Worldsec at 6th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong from 3 p.m. to 4 p.m. on Monday, 30 September 2013, and from 9 a.m. to 4 p.m., from Wednesday, 2 October 2013 to Friday, 4 October 2013 (both dates inclusive).

PLACING SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing which is sponsored by the Sole Sponsor and managed by the Lead Manager. The Placing Shares will be fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement (including but not limited to the Company and the Lead Manager (for itself and on behalf of the Underwriters) agreeing on the Placing Price). For further information about the Underwriters and the Placing and underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

PLACING PRICE

The Placing Price is expected to be fixed by the Price Determination Agreement between the Lead Manager (for itself and on behalf of the Underwriters) and the Company on the Price Determination Date, which is currently scheduled to be on or before Monday, 7 October 2013, or such other date as the parties may agree. For full information relating to the determination of the Placing Price, please refer to the section headed "Structure and Conditions of the Placing" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

SELLING RESTRICTIONS

No action has been taken to permit any offering of the Placing Shares 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 nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such 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 of the Placing Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or as an exemption therefrom.

Each person acquiring the Placing Shares will be required to confirm, or by his/her acquisition of the Placing Shares be deemed to confirm, that he/she is aware of the restrictions on the placing of the Placing Shares described in this prospectus and that he/she is not acquiring, and has not been offered, any such shares in connection that contravenes any such restrictions.

Prospective subscribers for the Placing Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction.

STRUCTURE OF THE PLACING

Details of the structure and conditions of the Placing are set out in the section headed “Structure and Conditions of the Placing” in this prospectus.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Placing.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares to be listed on GEM pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Listing Division, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

No part of the Shares or loan capital of the Company is listed, traded or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on 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 business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their 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.

DEALINGS AND SETTLEMENT

Dealings in the Shares are expected to commence on Friday, 11 October 2013.

Shares will be traded in board lots of 4,000 Shares and are freely transferable.

The GEM stock code for the Shares is 8185.

The Company will not issue any temporary document of title.

HONG KONG SHARE REGISTER AND STAMP DUTY

All of the Shares will be registered on the Company's register of members to be maintained in Hong Kong by the Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited.

Dealings in the Shares registered in the registrar of members of the Company will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of the Shares will be paid to the Shareholders listed on the Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles of Association.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Placing are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchase, holding, disposal of or dealing in, or exercise of any rights in relation to, the Placing Shares. None of Company, the Directors, the Sole Sponsor, the Underwriters, any of their respective directors, agents or advisers or any other persons involved in the Placing accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Placing Shares.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for reference only.

ROUNDING

Any discrepancies in any table or chart between totals and sums of the amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING
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DIRECTORS

Name	Residential Address	Nationality
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Executive Directors

Mr. CHAN Yan Tak (陳恩德)	FT A 1/F Block 1 Julimount Garden 8-12 Fu Kin Street Tai Wai Sha Tin New Territories Hong Kong	Chinese
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Mr. WONG Mau Tai (黃茂泰)	Flat B, 30th Floor Euston Court 6 Park Road Central Hong Kong	Chinese
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Mr. FOO Chi Ming (傅志明)	Flat E, 16/F Block 7 City Garden 233 Electric Road Hong Kong	Chinese
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Non-executive Director

Madam. TSANG Pui Man (曾佩雯)	FT A 1/F Block 1 Julimount Garden 8-12 Fu Kin Street Tai Wai Sha Tin New Territories Hong Kong	Chinese
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Independent Non-executive Directors

Mr. WEI Jianan (魏甲南)	Room 16B Block B Jinxu Garden Phase II Huaqiao City Shenzhen China	Chinese
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DIRECTORS AND PARTIES INVOLVED IN THE PLACING
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Name	Residential Address	Nationality
Professor NG Ka Ming (吳嘉名)	Flat A 2/F Block 7 SSQ Hong Kong University of Science and Technology Clear Water Bay Kowloon Hong Kong	Chinese
Mr. CHENG Kwok Kin, Paul (鄭國乾)	Room C, 41/F Tower 9 Bellagio 33 Castle Peak Road Sham Tseng New Territories	British

PARTIES INVOLVED IN THE PLACING

Sole Sponsor	WAG Worldsec Corporate Finance Limited 6th Floor New Henry House 10 Ice House Street Central Hong Kong
Lead Manager	WAG Worldsec Corporate Finance Limited 6th Floor New Henry House 10 Ice House Street Central Hong Kong
Underwriters	WAG Worldsec Corporate Finance Limited 6th Floor New Henry House 10 Ice House Street Central Hong Kong
	Luen Fat Securities Company Limited 6/F New Henry House 10 Ice House Street Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Great Roc Capital Securities Limited
Suite 3712, 37/F
West Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Convoy Investment Services Limited
1/F
Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

SBI E2 Capital Financial Services Limited
Unit A2, 32/F
United Centre
95 Queensway
Hong Kong

Luk Fook Securities (HK) Limited
Room 505–6, 5/F
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Roctec Securities Company Limited
Room 2406, 24/F
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Wocom Securities Limited
Room 1002
Wing On Centre
111 Connaught Road Central
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
Hastings & Co.
5th Floor, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING
--

Jackson Poon Chin Ping
Barrister-at-law
15/F, Dina House
11 Duddell Street
Central
Hong Kong

As to the Cayman Islands law:

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

As to Taiwan law:

Lee and Li, Attorneys-at-Law
7F, 201 Tun Hua N. Road
Taipei, Taiwan 10508, R.O.C

**Legal advisers to the Sole Sponsor
and the Underwriters**

As to Hong Kong law:

Stephenson Harwood
35/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

Auditor and reporting accountants

CCIF CPA Limited
9/F, Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

Property valuer

Asset Appraisal Limited
Room 901, 9/F
On Hong Commercial Building
145 Hennessy Road
Wanchai
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office, headquarters and principal place of business in Hong Kong registered under Part XI of the Companies Ordinance	21/F., Man Shing Industrial Building 307–311 Castle Peak Road Kwai Chung Hong Kong
Company's website	www.royalmedic.com <i>(the information contained in the website does not form part of this prospectus)</i>
Company secretary	Ms. Mak Mei Kuen (麥美娟)
Authorised representatives	Mr. Chan Yan Tak (陳恩德) FT A 1/F Block 1 Julimount Garden 8–12 Fu Kin Street Tai Wai Sha Tin New Territories Hong Kong Ms. Mak Mei Kuen (麥美娟) Flat B, 16th Floor Tower 6A Oceanaire Po Tai Street Ma On Shan Hong Kong
Audit committee	Mr. Cheng Kwok Kin, Paul (鄭國乾) (<i>Chairman</i>) Mr. Wei Jianan (魏甲南) Professor Ng Ka Ming (吳嘉名)
Nomination committee	Mr. Wei Jianan (魏甲南) (<i>Chairman</i>) Professor Ng Ka Ming (吳嘉名) Mr. Cheng Kwok Kin, Paul (鄭國乾)
Remuneration committee	Mr. Wei Jianan (魏甲南) (<i>Chairman</i>) Professor Ng Ka Ming (吳嘉名) Mr. Cheng Kwok Kin, Paul (鄭國乾)
Compliance officer	Mr. Foo Chi Ming (傅志明)

CORPORATE INFORMATION

Compliance adviser

WAG Worldsec Corporate Finance Limited

Principal bankers

Chong Hing Bank Limited
Chong Hing Bank Centre
24 Des Voeux Road
Central, Hong Kong

Bank of China Limited
Bank of China Tower
1 Garden Road
Central, Hong Kong

The Cayman Islands principal share registrar and transfer office

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
PO Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Agent

Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

INDUSTRY OVERVIEW

Certain information and statistics set out in this section and elsewhere in this prospectus have been derived from various publications or obtained from various official sources, which may not be consistent with other information available and should not be unduly relied upon. This section also contains certain information and statistics that have been extracted from various private publications. The Directors believe that the information and statistics that have been sourced from these private publications are appropriate. The Directors have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted which would render such information or statistics false or misleading. While the Group has exercised reasonable care in reproducing the information and statistics contained in this section, they have not been independently verified by the Directors, the Sole Sponsor, Lead Manager, Underwriters, any of the Group and/or their respective directors, advisers, officers, employees, agents or representatives or any person involved in the Placing. No representation is given as to the accuracy of such information and statistics.

The Group engaged Ipsos on 24 October 2011 and 21 February 2013 to carry out industry research into health supplements and beauty supplements products in Hong Kong and Taiwan, respectively for a total fee of approximately HK\$326,000. The findings and analysis of the industry research are set out in the report issued by Ipsos on 16 August 2013. The Directors confirm that Ipsos, including all of its subsidiaries, divisions and units, is independent of and not connected to the Group in any way. Ipsos, on behalf of itself, its subsidiaries, divisions and units, confirms that the industry research was prepared in its ordinary course of business, and has granted consent to the Group to quote from the industry report and to use information contained in the report in this prospectus.

The information contained in the Ipsos Report is derived from data and intelligence gathering methodology which includes (i) desk research conducted by Ipsos including specialised industry literature, government/regulatory sources, online data sources, third-party reports and surveys, industry and analyst reports, industry associations and the database maintained by Ipsos; and (ii) primary research from interviews with key stakeholders and industry experts, including health and beauty supplements and product manufacturers, distributors and retailers in Hong Kong; and (iii) client consultation.

Ipsos is a market research and consulting firm with offices in over 84 countries that generates insight to help clients drive competitive brands, and product and customer experience strategies. Ipsos is engaged in the provision of various services including market surveys, market profiling, market sizing, share and segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence. The Group have disclosed certain information extracted from the industry report in the sections headed “Summary”, “Industry Overview” and “Business” in this prospectus.

For Ipsos’s qualifications, please refer to the section headed “E. Other Information — 6. Qualifications of experts” in Appendix V in this prospectus.

HEALTH SUPPLEMENTS MARKET IN HONG KONG

The health supplements market in Hong Kong consists of a wide variety of products targeting consumers with recurring health problems as well as those who are seeking to maintain a healthy body and lifestyle. The market primarily consists of two segments: (i) PCM health supplements, which

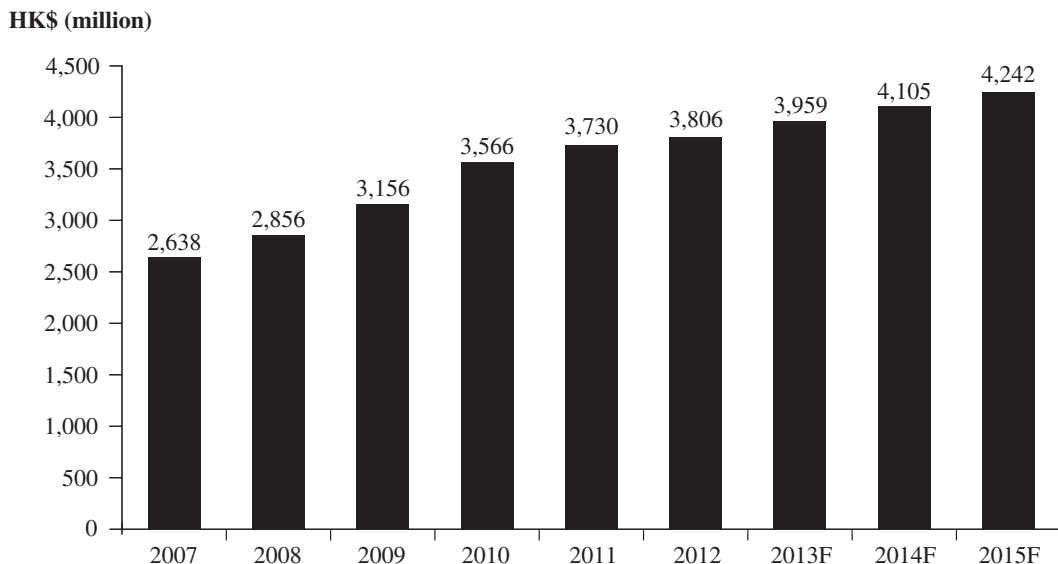
INDUSTRY OVERVIEW

comprises solely Chinese medicines as prescribed under the relevant laws and regulations of Hong Kong and (ii) non-PCM health supplements which include those health supplements containing traditional Chinese herbs or extracts other than PCM health supplements, vitamins, fish oil and other health supplements for various health enhancement purposes.

According to Ipsos, the total retail sales of health supplements in Hong Kong grew from approximately HK\$2,638 million in 2007 to approximately HK\$3,806 million in 2012, representing a CAGR of approximately 7.6%. Rising health consciousness, the increase in consumer disposable income and discretionary spending boosted retail sales value of health supplements in Hong Kong. As consumer health awareness raise and become more knowledgeable on the effect of the different types of health supplements, Ipsos forecasts that the health supplements market is expected to reach approximately HK\$4,242 million by 2015, representing a CAGR of approximately 3.5% from 2013 to 2015.

The chart below illustrates the historical and forecast retail sales value of health supplements in Hong Kong from 2007 to 2015.

Retail Sales Value of Health Supplements in Hong Kong (2007–2015)



Source: Ipsos Report

Consumption and retail sales pattern of the health supplements market in Hong Kong

Retail sales value of health supplements (intake) by key product type in Hong Kong

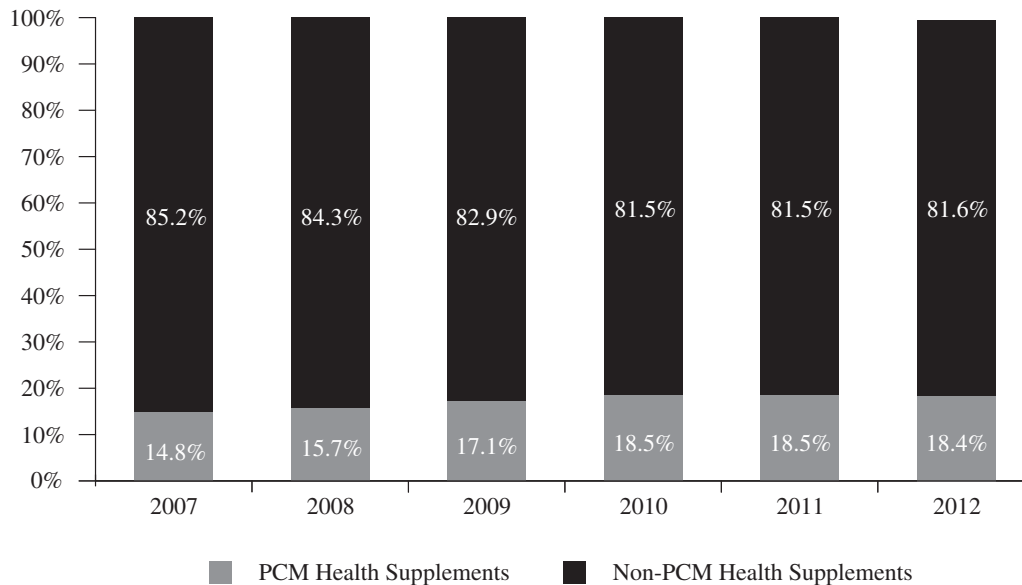
According to Ipsos, the retail sales value of PCM health supplements (intake) accounted for approximately 18.4% of the total retail sales value of health supplements in Hong Kong in 2012, whilst the non-PCM health supplements accounted for approximately 81.6% of the total retail sales value of health supplements in Hong Kong in 2012. Although the market share of PCM health supplements only accounted for 18.4% of the total retail sales value of the entire health supplements market, the PCM health supplements segment has sustained the fastest growth over the years, from approximately HK\$390 million in 2007 to approximately HK\$702 million in 2012, representing a CAGR of

INDUSTRY OVERVIEW

approximately 12.5%, whilst the retail sales value of non-PCM health supplements has grown from approximately HK\$2,248 million to approximately HK\$3,104 million, representing a CAGR of approximately only 6.7%. The rapid expansion of the PCM health supplements industry, the growing recognition of PCM health supplements amongst Hong Kong consumers and the more expensive unit price of products have contributed to the faster growth of PCM health supplements.

The chart below illustrates the retail sales value of health supplements (intake) by key product type in Hong Kong from 2007 to 2012.

**Retail Sales of Health Supplements
by Key Product Type in Hong Kong (2007–2012)**



Source: Ipsos Report

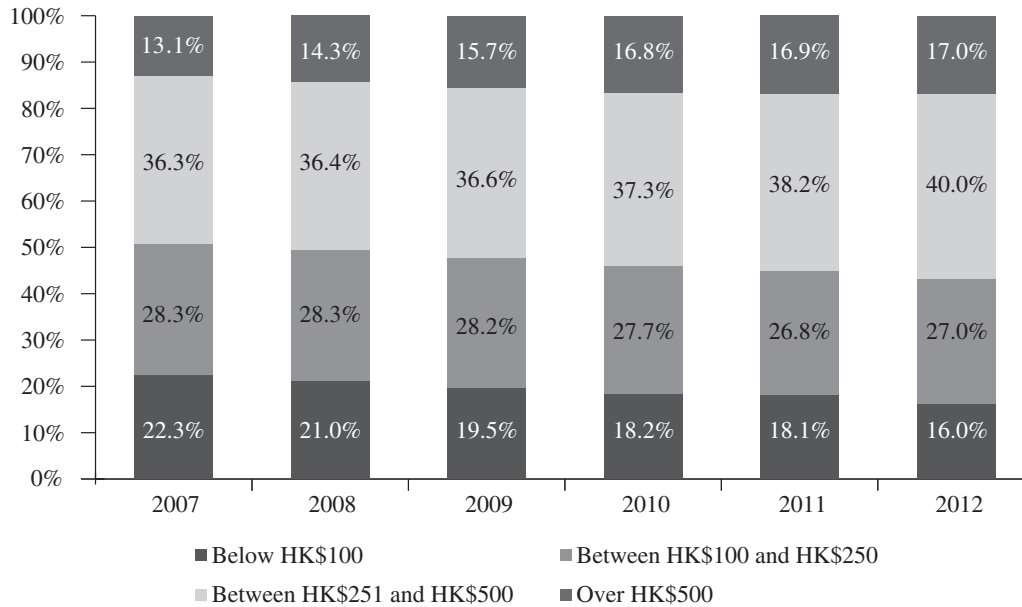
Retail sales value of health supplements (intake) by price range in Hong Kong

With the increase of personal income and health awareness over the years among general public in Hong Kong, more and more consumers tend to increase their spending on health supplements and related products. According to Ipsos, the health supplements products priced between HK\$251 and HK\$500 accounted for approximately 40.0% of the total retail sales value of all health supplements products in 2012, compared with approximately 36.3% in 2007, representing a CAGR of approximately 9.7%, whilst the health supplements products priced over HK\$500 have sustained the fastest growth over the years and accounted for approximately 17.0% of the total retail sales value of health supplements products in 2012, compared with approximately 13.1% in 2007, representing a CAGR of approximately 13.4%.

INDUSTRY OVERVIEW

The chart below illustrates the retail sales value of health supplements (intake) by price range in Hong Kong from 2007 to 2012.

**Retail Sales of Health Supplements
by Price Range in Hong Kong (2007–2012)**



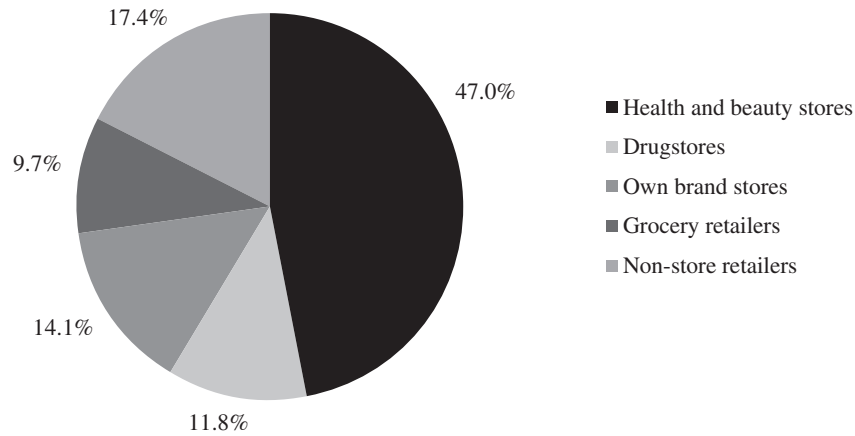
Source: Ipsos Report

Retail sales value of health supplements (intake) by sales and distribution channels in Hong Kong

Health supplements products in Hong Kong are primarily sold and distributed through various major channels including (i) health and beauty stores (such as Mannings); (ii) non-store retailers (such as internet sales and direct selling); (iii) drugstores; (iv) grocery retailers; and (v) own branded stores. According to Ipsos, during the period of 2007 to 2012, the retail sales value of health supplements sold by beauty and healthcare stores has been growing steadily, with an increase from approximately 37.6% to approximately 40.0%, representing a CAGR of approximately 8.9%. The retail sales value of health supplements sold by non-store retailers has recorded the fastest growth amongst all major selling and distribution channels, with an increase from approximately 36.4% to approximately 40.6% during the same period, representing a CAGR of approximately 10.0%. Although currently the non-store retailers have a larger share of retail sales value of health supplements compared with the beauty and healthcare stores, consumers in Hong Kong generally still prefer to purchase health supplements products through the beauty and healthcare stores. This is due to the fact that the extensive number of sales outlets, a wide range of brands and products offered to consumers better quality assurance, and the stationed in-store pharmacists allow consumers to maximise their purchasing experience. In particular, health and beauty stores are the key retailers for PCM health products. The following chart illustrates the total retail sales value of PCM health supplements by Retail Channel Type in 2012.

INDUSTRY OVERVIEW

**Retail Sales of PCM Health Supplements
by Retail Channel Types in Hong Kong in 2012**

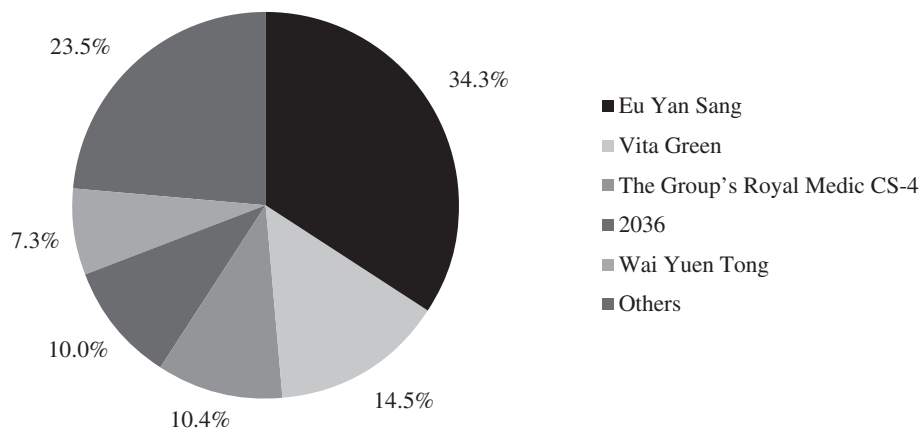


Competitive landscape of PCM health supplements in Hong Kong

According to Ipsos, the PCM health supplements market in Hong Kong is mainly dominated by local and international brands. The total retail sales value of PCM health supplements in 2012 was approximately HK\$702 million and the top five brands accounted for approximately 76.5% of the total market share. The Group were ranked the third among the top five brands in the PCM health supplements market in 2012 and have accounted for approximately 10.4% of the total retail sales value of PCM health supplements in Hong Kong, which was approximately HK\$73 million.

The chart below illustrates the total retail sales value of PCM health supplements (intake) by brands in Hong Kong from 2007 to 2012.

**Retail Sales of PCM Health Supplements
by Brands in Hong Kong in 2012**



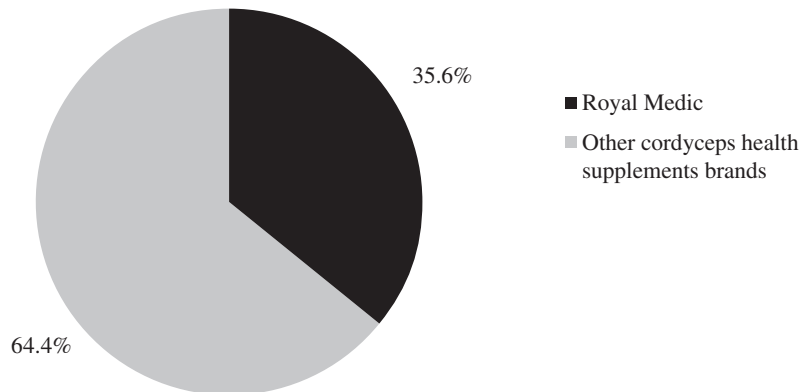
Source: Ipsos Report

INDUSTRY OVERVIEW

In addition to the above, the Group's PCM health supplement launched in 2008, and also the Group's flagship product, Royal Medic CS-4, was ranked number 1, in terms of sales value, among all Cordyceps products in Hong Kong for five consecutive years ended August 2013 according to the reports issued by an independent global marketing research firm.

According to Ipsos, it is estimated that health supplements with cordyceps extracts accounted for about 5.4% of the total retail sales value of health supplements market in 2012 at about HK\$205 million. The chart below illustrates the retail sales of cordyceps health supplements by Brands in 2012.

Retail Sales of Cordyceps Health Supplements by Brands in Hong Kong in 2012



Source: Ipsos Report

Drivers of the health supplements market in Hong Kong

Increasing health consciousness and awareness

Since the outbreak of SARS in 2003, the avian influenza pandemic in 2005 and H1N1 in 2009, Hong Kong's people have become more health-conscious. Increased preventative actions have been undertaken by consumers such as the intake of health supplements as part of their daily diet to maintain their health.

Over the years, with the continued improvement of living standards, household income and availability of information through widespread media coverage and the internet, consumers in Hong Kong are becoming increasingly accustomed to the idea of maintaining a healthy lifestyle and well-being. According to Ipsos by a survey conducted by the University of Hong Kong in 2008, demand for health supplements has increased significantly over the years which has led to rapid growth of the health supplements industry. This is evidenced by the fact that approximately 35% of the population in Hong Kong, which is equivalent to approximately two million people, consumed health supplement products in 2008, compared with 28% in 2000.

INDUSTRY OVERVIEW

Increasing projected healthcare cost

The increasing projected healthcare cost coupled with the HKSAR government's healthcare reform to address over-reliance on the public healthcare system and to reduce healthcare expenditure in the long-run, is motivating individuals to take self-actions to sustain their health and reduce reliance on the public healthcare system.

Decreasing birth rate and ageing population

Decreasing birth rates coupled with an ageing population have stimulated the demand for health supplements as consumers are becoming increasingly health conscious. According to Ipsos, the elderly population is one of the key consumer groups for health supplements in Hong Kong. The elderly population (aged 65 years old or above) in Hong Kong has grown rapidly in the past few years, from approximately 812,500 in 2003 to approximately 965,700 in 2011, representing a CAGR of approximately 2.2%. The rapid increase in healthcare costs in recent years has resulted in a number of healthcare reforms that have been initiated by the government in Hong Kong, particularly to reduce the healthcare expenditure in the long run. Ipsos expects that the health supplements products specifically targeted at the elderly population, for example those that maintain bone health, heart health, reduce blood sugar level and in particular anti-ageing products will continue to grow in demand in the future.

Supportive policy by the Government and private sector

As early as the late 1990s, the government of Hong Kong introduced a number of supportive policies to develop the biotechnology industry, which included in particular the health supplements industry and PCM health supplements industry. The government has invested in and numerous efforts have been made to promote the growth of the industry and various research and development centres and institutions were set up during that period. According to Ipsos, the government has since sponsored over 2,500 biotechnology projects with an aggregate investment of approximately HK\$6 billion.

Increasing of Mainland Chinese consumers in Hong Kong

Tourists from Mainland China accounted for about 67% of total number of tourists to Hong Kong in 2011. The number of tourists from Mainland China to Hong Kong recorded a continuous growth from 2007 to 2012, representing a CAGR of about 17.7% as a result of the ease of travel restrictions on Mainland China tourists visiting Hong Kong. The average expenditure per Mainland Chinese tourist also increased significantly from about HK\$3,805 in 2007 to HK\$5,237 per visit in 2011, at a CAGR of about 8.3%. According to the Hong Kong Tourism Board, about 17% of Mainland Chinese tourists bought medicine and Chinese herbs products including health supplements in Hong Kong in 2011. Mainland Chinese tourists prefer to shop in Hong Kong because they have higher confidence to purchase quality products at Hong Kong stores, especially food products as compared to those in China.

Increasing consumption of Chinese medicine

The increasing confidence and popularity of Chinese medicine in general will boost demand for Chinese medicine-related products including PCM health supplements and health supplements with traditional Chinese herbal extract ingredients, as consumers believe that it is healthier and more natural than other western health supplements.

INDUSTRY OVERVIEW

Future development and trends of health supplements

Increase in product variety and formula

According to Ipsos, the health supplements market is saturated with approximately 335 manufacturers and 782 brands in 2012. Intensive competition between manufacturers has brought about frequent innovations and the launch of new products in more sophisticated packaging and in a more sophisticated format each year. Supplements containing multiple formulas or extracts will be in trend while products with convenient packaging will offer breakthroughs to the market, tailoring for different individuals' consumption habits.

Ipsos predicts that multi-functional products addressing specific health issues, organs and systems such as combination supplements focusing on the heart and bones will drive the overall growth of the health supplements market in the next few years.

Extensive range of consumer segments

According to Ipsos, as the younger generation in Hong Kong becomes more educated and health conscious, the health supplements market will continue to focus on the younger generation segment. In 2010 according to a survey conducted by the Chinese University of Hong Kong, approximately 52% of parents in Hong Kong provided health supplements to their children from an early age in order to educate them on the importance of sustaining health, and approximately 36% of parents in Hong Kong spent more than HK\$250 per month on health supplements for each child. As a result, Ipsos expects that the young consumers segment will experience faster growth compared with the market as a whole.

Also, Ipsos estimated that mainland Chinese consumers will be another main driving force for the growth of the health supplements market. In 2011, the sales value contributed by the mainland Chinese consumers accounted for approximately 25% of the total retail sales value of the health supplements market. Ipsos predicted that the health supplements market targeted at the mainland Chinese consumers has huge potential for growth.

Standardisation of the health supplement industry

According to Ipsos, product quality and product safety are still the primary concerns for consumers in Hong Kong when selecting and purchasing health supplements products. In order to gain consumers confidence and to provide quality and safety assurance to the targeted consumers, manufacturers will continue to invest in order to meet the international certifications and standards, such as GMP certification, SGS, ISO etc. The standardisation of the health supplements industry will prompt manufacturers to increase engagement in brand building and to ensure quality and safety of the products in order to enhance their reputation and to raise consumer awareness. Ultimately, top quality reputable brands will be the ones to outperform and thrive in the market.

INDUSTRY OVERVIEW

BEAUTY SUPPLEMENTS MARKET IN HONG KONG

The beauty supplements market in Hong Kong primarily consists of two segments: (i) lifestyle beauty supplements, which comprise supplements containing natural extracts or chemicals that aim to slim body, burn fat or firm bust; and (ii) skincare beauty supplements, which comprise supplements containing nutrients such as collagen, anti-radicals and coenzymes that aim to improve skin condition, for instance, skin whitening, anti-oxidation, anti-aging and anti-wrinkle.

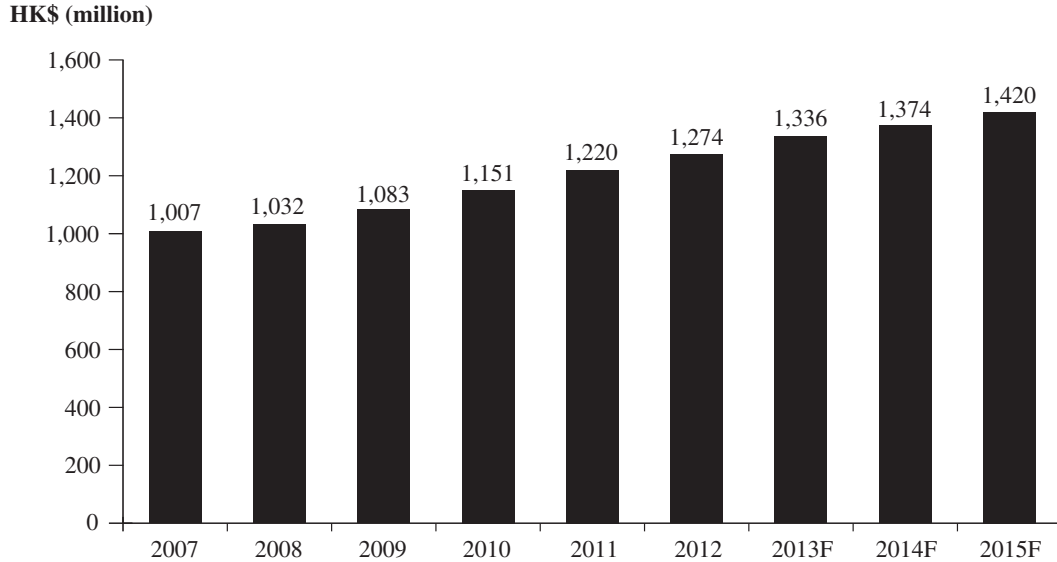
In Hong Kong, the educated female population with a high income is the key consumer group for beauty supplements products. Similar to the health supplements market, when selecting beauty supplements, consumers tend to look for products premium quality and scientifically proven formulae. Despite the fact that in recent years a growing number of own branded stores have been introduced and established by some local and international cosmetic and skincare manufacturers in order to capture the rapidly growing market, non-store retailers and beauty and healthcare stores are still the main selling and distribution channels for beauty supplements products.

According to Ipsos, the total retail sales value of beauty supplements (intake) in Hong Kong grew from approximately HK\$1,007 million in 2007 to approximately HK\$1,274 million in 2012, representing a CAGR of approximately 4.8%. With the influence of the beauty and slimming culture in Hong Kong in recent years, numerous slimming and beauty centers have been established. The female population is becoming increasingly conscious about their appearance, and the beauty supplements market has undergone a significant growth. Ipsos forecasts that the beauty supplements market will grow steadily and is expected to reach approximately HK\$1,420 million in 2015, representing a CAGR of approximately 3.1% from 2013 to 2015. Ipsos predicts that there is still large room for growth in the beauty supplements market.

INDUSTRY OVERVIEW

The chart below illustrates the historical and forecast retail sales value of beauty supplements in Hong Kong from 2007 to 2015.

Retail Sales Value of Beauty Supplements in Hong Kong (2007–2015)



Source: Ipsos Report

Consumption and retail sales pattern of the beauty supplements market in Hong Kong

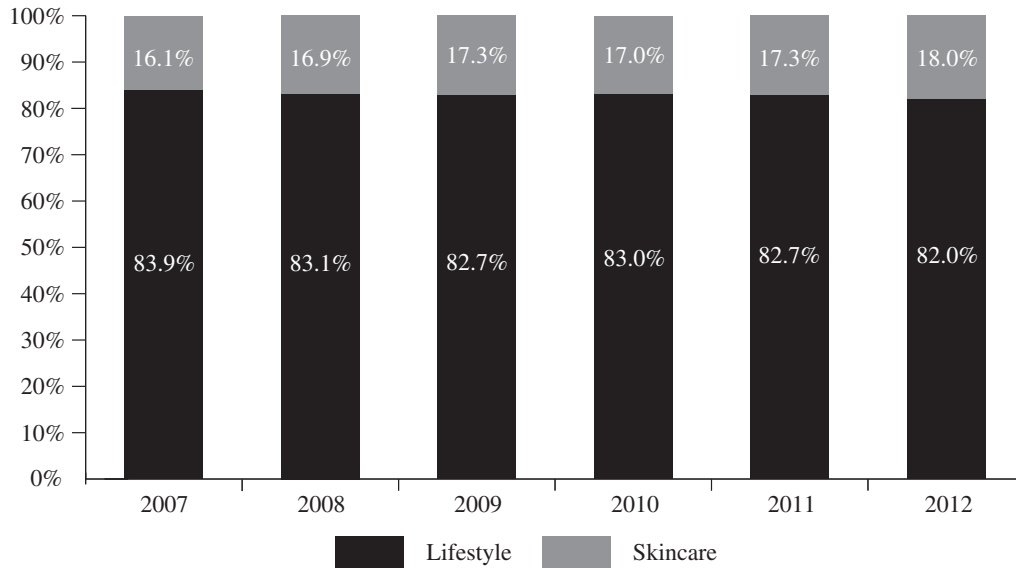
Retail sales value of beauty supplements (intake) by key product type in Hong Kong

According to Ipsos, the retail sales value of lifestyle beauty supplements dominated the beauty supplements market with approximately 82.0% of the total retail sales value of beauty supplements in 2012. The slimming culture boom in Hong Kong was the key factor sustaining growth in recent years. The retail sales value of lifestyle beauty supplements grew from approximately HK\$845 million in 2007 to approximately HK\$1,045 million in 2012, representing a CAGR of approximately 4.3%, whilst the retail sales value of skincare beauty supplements has recorded the higher growth among the two, growing from approximately HK\$162 million in 2007 to approximately HK\$229 million in 2012, representing a CAGR of approximately 7.2%. As advised by Ipsos, the reason behind the rapid growth was mainly due to the slimming culture boom in Hong Kong. As individuals' self-awareness grows, an increasing number of females have resorted to beauty supplements in an attempt to improve their physical appearance. Many manufacturers and brand owners for cosmetic and skincare products are now promoting "beauty-from-within" and launching new beauty supplements products for skincare to expand their market share. This has contributed significantly to the growth of the beauty supplements and manufacturers are leveraging their brand reputation in skincare and cosmetic products to attract customers and build consumer confidence in their beauty supplements products.

INDUSTRY OVERVIEW

The chart below illustrates the retail sales value of beauty supplements (intake) by key product types in Hong Kong from 2007 to 2012.

**Retail Sales of Beauty Supplements (intake)
by Product Types in Hong Kong (2007–2012)**



Source: Ipsos Report

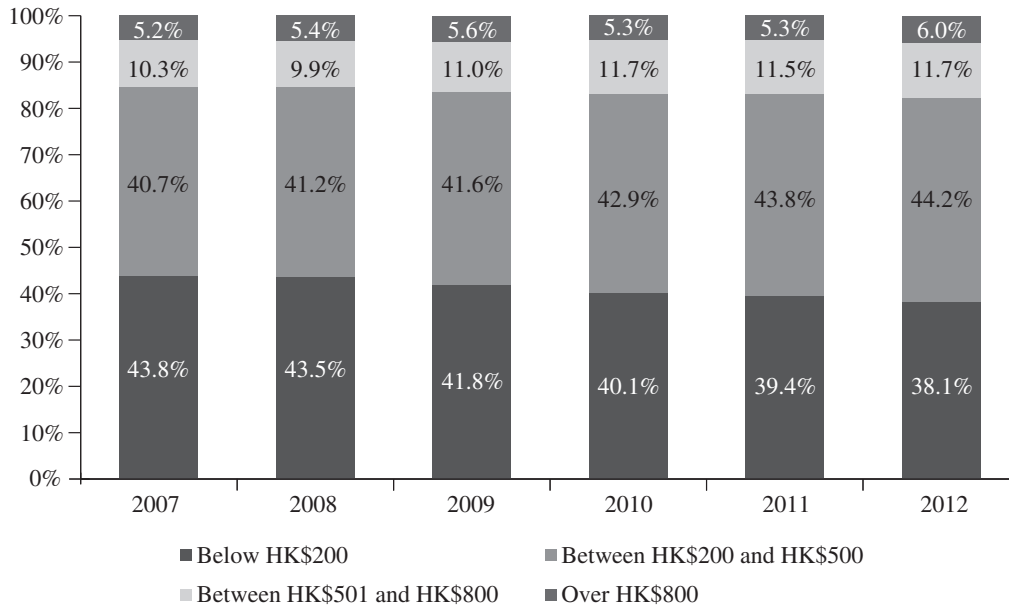
Retail sales value of beauty supplements (intake) by price range in Hong Kong

Similar to the trend of the health supplements market, with the increase in income and the increase in individual self awareness, more people tend to increase their spending on beauty supplements products. The beauty supplements products priced between HK\$200 to HK\$500 accounted for approximately 44.2% of the total retail sales value of all beauty supplements product in 2012, compared with approximately 40.7% in 2007, representing a CAGR of approximately 6.6%. In comparison, the beauty supplements products priced over HK\$800 sustained the fastest growth over the year accounting for approximately 6.0% of the total retail sales value of beauty supplements products in 2012, compared with approximately 5.2% in 2007, representing a CAGR of approximately 7.9%.

INDUSTRY OVERVIEW

The chart below illustrates the retail sales value of beauty supplements (intake) by price range in Hong Kong from 2007 to 2012.

**Retail Sales of Beauty Supplements (intake)
by Price Range in Hong Kong (2007–2012)**



Source: Ipsos Report

Retail sales value of beauty supplements (intake) by sales and distribution channels in Hong Kong

Similar to health supplements products, beauty supplements products in Hong Kong are primarily sold and distributed through various major channels including (i) health and beauty stores (such as Mannings); (ii) non-stores retailers (such as internet sales and direct selling channels); (iii) grocery retailers; (iv) own branded stores; and (v) others channels (such as beauty salons and drugstores). According to Ipsos, although the retail sales value of non-store retailers as a whole dominated the market share amongst all major selling and distribution channels and accounted for approximately 45.0% of the total sales value of beauty supplements in 2012, health and beauty stores such as Mannings and Watsons are the next best selling and distribution channel for beauty supplements products in Hong Kong as these retail stores are popular among the local and mainland Chinese consumers due to its good reputation and accounted for approximately 27.2% of the total sales value of beauty supplements in 2012.

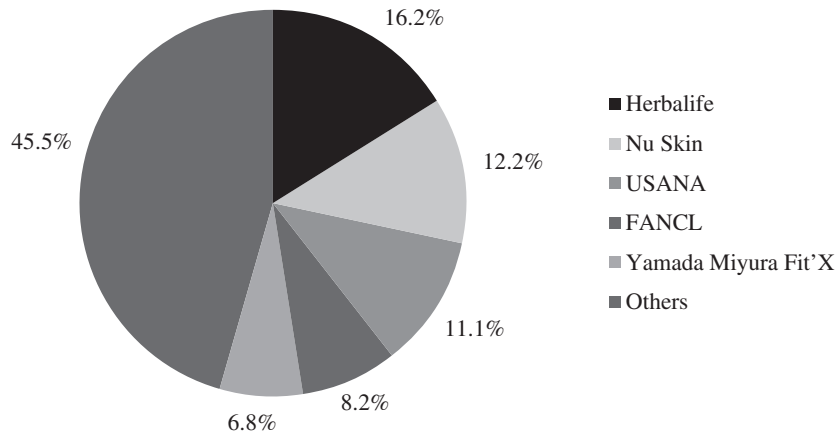
Competitive landscape of beauty supplements in Hong Kong

According to Ipsos, the beauty supplements market in Hong Kong is dominated by foreign brands. The total retail sales value of beauty supplements in 2012 was approximately HK\$1,274 million, whilst the top five brands altogether have already accounted for approximately 54.5% of the total market value of the beauty supplements market in Hong Kong, with the value of approximately HK\$695 million. Amongst the top five brands, four out of the top five brands are renowned foreign brands namely “Herbalife”, “Tegreen 97”, “Nutrimeal”, “Fancl” and “Miyura Fit’X Fat Burn System”.

INDUSTRY OVERVIEW

The chart below illustrates the total retail sales value of beauty supplements (intake) according to brands in Hong Kong in 2012.

**Retail Sales of Beauty Supplements (intake)
by Brand in Hong Kong in 2012**



Source: Ipsos Report

In addition, according to Ipsos, the growth of direct selling in the recent years has enabled the key brands to grow rapidly. Foreign brands such as “Herbalife”, “USANA”, “Nu Skin” and “Amway” are the major players engaged in direct selling in Hong Kong.

Ipsos observed that a number of foreign brands, particularly those from Japan such as “FANCL” and “Chocola BB Drink Bit” have established their position in the Hong Kong market. These foreign brands have leveraged, their strong reputation in beauty supplements products to increase their marketing exposure in recent years and raise public awareness of their products. Overall, Ipsos believes that the high investment cost and strong reputation of the existing brands in the market will create barriers of entry for the newcomers to enter the beauty supplements market in Hong Kong.

Drivers of beauty supplements in Hong Kong

Increase in self-beauty awareness amongst the female population

In view of the increasing female working population and the hectic lifestyle in Hong Kong, many working females fail to attain a balanced diet and are often concerned about the sufficiency of their intake of beauty nutrients. Many female consumers are getting more conscious about their weight and intend to consume further nutrients and slimming products in addition to their daily diet in order to improve their body shape and well-being. Also, the growing trend of beauty supplements that are complementary to skincare, and cosmetic products for external-application to enhance beauty from within, is one of the main drives that boosted demand for beauty supplements in Hong Kong.

INDUSTRY OVERVIEW

Increase in Mainland Chinese consumers

The increase in mainland Chinese consumers has been one of the key drivers contributing to the rapid growth of the beauty supplements market in Hong Kong. Ipsos estimates that the retail sales value of beauty supplements contributed by the mainland Chinese consumers accounted for approximately 35% of the total retail sales of the health supplements market in Hong Kong in 2011. Ipsos advised that the main reason behind the rapid growth is due to the fact that beauty supplements sold in Hong Kong are highly regarded by the mainland Chinese consumers in terms of the authenticity and quality of the products.

Increasing acceptance of “beauty-from-within” concept

The concept of “beauty-from-within” is increasingly accepted by Hong Kong consumers as it has been promoted by the media, brand owners and manufacturers of skincare and cosmetic products. The growing trend of beauty supplements as complementary to the use of skincare and cosmetic products for external-application to enhance beauty from within is boosting demand for beauty supplements in Hong Kong.

Future development trends of beauty supplements

Increase in investment by manufacturers in the accountability of products’ effectiveness

According to Ipsos, consumer confidence in relation to the effectiveness of beauty supplements is still fairly low. Scientific proof and testing of the effectiveness of the beauty supplements and relevant certification will boost consumer confidence and increase demand for beauty supplements. Therefore, manufacturers are expected to increase investment in clinical trials and laboratory testing via scientific methodology, and promote the outcome of such tests to raise consumers’ awareness and confidence.

Growing investment in customer engagement and experience

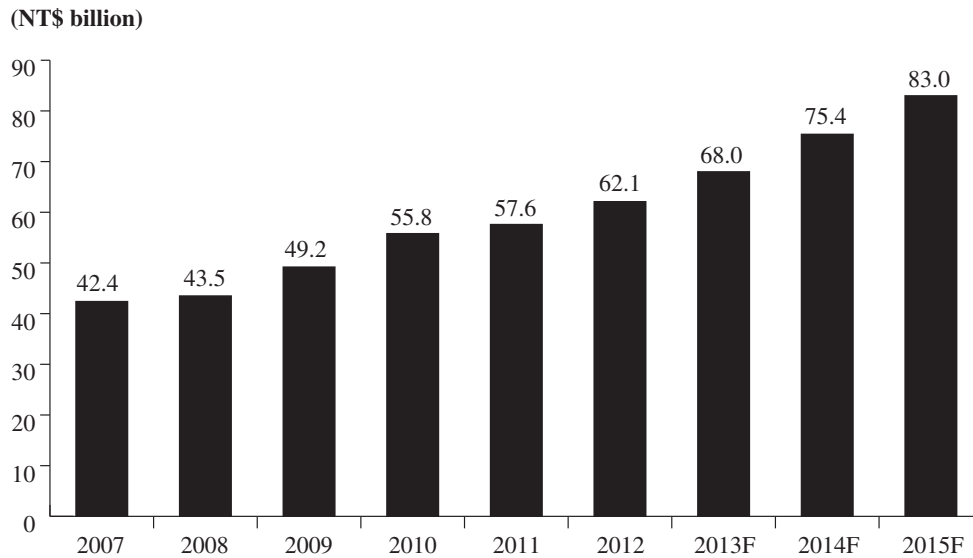
In view of the lack of knowledge of the ingredients of the beauty supplements, many consumers make their choices based on their peers’ reviews. Ipsos is of the view that the increase in professional advice given on beauty issues is necessary in order to build consumer confidence in the products. Increased engagement with consumers such as providing free periodical information relating to health and beauty issues can enhance customer loyalty. Brands which can successfully gain trust and engage with customers are expected to thrive in the market.

HEALTH SUPPLEMENTS MARKET IN TAIWAN

According to Ipsos, the total retail sales of health supplements market in Taiwan increased from approximately NT\$42.4 billion in 2007 to approximately NT\$62.1 billion in 2012, at a CAGR of about 8.0%. Aging population, changing lifestyle and raising health awareness in Taiwan has turned health supplements into a necessity product. It is expected that the total retail sales of health supplements market in Taiwan will continue to grow at a CAGR of approximately 10.5% from 2013 to 2015. Increasing health concern of the Taiwanese, driven by the belief of prevention is more important than treatment will further drive the future development of health supplements in Taiwan.

INDUSTRY OVERVIEW

Retail Sales Value of Health Supplements in Taiwan (2007–2015)



Source: Ipsos Report

Competitive landscape of health supplements in Taiwan

According to Ipsos, the health supplements market in Taiwan is fragmented and dominated by direct sellers. Direct sellers sell their products directly to consumers, away from fixed retail locations and without going through other third parties such as distributors and retailers. There are approximately 600 health supplements manufacturers in Taiwan in 2012, of which 90% are local Taiwanese manufacturers with relatively small scales and 10% are foreign manufacturers with relatively large scales. In terms of retail sales value of health supplements in Taiwan, local Taiwanese manufacturers/brand owners and foreign manufacturers/brand owners accounted for approximately 72% and 28% of the total retail sales value, respectively in 2012. Foreign manufacturers or brand owners such as “Amway”, “Sanyo Pharmaceutical”, “Cerebos”, “Rotta Pharmaceuticals” and “Pfizer” are the key players of the health supplements industry in Taiwan. Taiwanese consumers prefer foreign brands with strong global reputation as they believe that those brands are guaranteed of high product quality and effectiveness. While direct selling remains the key channel for sales of health supplements in Taiwan, internet retailing has become increasingly popular, particularly for vitamins and dietary supplements due to its relatively low operating cost.

OVERVIEW

During the Track Record Period, the business activities of the Group are principally based in Hong Kong and are therefore principally subject to the relevant laws and regulations in Hong Kong. Save for those non-compliance incidents set out in the paragraph headed “Litigation and Compliance” in the section headed “Business” in this prospectus, the Group has complied with all applicable laws and regulations in relation to its business in all material respects and obtained all relevant licences and permits in the jurisdictions where the Group has operations during the Track Record Period and up to the Latest Practicable Date, save and except that the Group is still in the course of applying for the certificate of registration for Royal Medic CS-4 as a PCM under the Chinese Medicine Ordinance.

The Group commenced its business activities in Taiwan by setting up its indirect wholly owned subsidiary in March 2013. The Group’s indirectly owned subsidiary in Taiwan has complied with all the applicable laws and regulations in Taiwan and has obtained all the licences and permits necessary for its operation in Taiwan since its establishment.

This section sets out summaries of certain aspects of Hong Kong and Taiwan laws and regulations, which are relevant to the Group’s business operations.

Hong Kong Regulatory Overview

The following sets forth a summary of the most significant aspects of Hong Kong laws and regulations relating the Group’s business operations in Hong Kong.

Public Health and Municipal Services Ordinance

The legal framework for food safety control in Hong Kong is set out in Part V of the Public Health and Municipal Services Ordinance (Chapter 132, the Laws of Hong Kong) (the “**Public Health Ordinance**”) and the relevant sub-legislations thereunder. The Public Health Ordinance requires the manufacturers and sellers of food to ensure that their products are fit for human consumption and comply with the requirements in respect of food safety, food standards and labelling.

As the principal business of the Group is in the formulation, marketing, sale and distribution of health supplements and beauty supplements and products in Hong Kong, the Group is subject to the regulation of the Public Health Ordinance.

Section 50 of the Public Health Ordinance prohibits manufacture, advertising and sale in Hong Kong of food or drugs that are injurious to health. Anyone who fails to comply with this section commits an offence which carries a maximum penalty of HK\$10,000 and three months imprisonment.

Section 52 of the Public Health Ordinance provides that, subject to a few defences in section 53 of the same ordinance, if a seller sells to the prejudice of a purchaser any food or drug which is not of the nature, substance or quality of the food or drug demanded by the purchaser, the seller shall be guilty of an offence which carries a maximum penalty of HK\$10,000 and three months imprisonment.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

According to section 54 of the Public Health Ordinance, any person who sells or offer for sale any food intended for, but unfit for, human consumption, or any drug intended for use by human but unfit for the purpose, shall be guilty of an offence. The maximum penalty for contravention of section 54 is a fine of HK\$50,000 and six months imprisonment.

Section 61 of the Public Health Ordinance provides that it shall be an offence for any person who gives with any food or drug sold by him/her or displays with any food or drug exposed for sale by him/her any label which falsely describes the food or drug or is calculated to mislead as to its nature, substance or quality. Further, it shall also be an offence if any person publishes or is party to the publication of an advertisement falsely describing any food or drug or is likely to mislead as to the nature, substance or quality of any food or drug.

The Food and Environmental Hygiene Department is responsible for the enforcement of the relevant laws and regulations. It may take samples of all kinds of food products at their points of entry to Hong Kong and may prohibit or restrict importation of a food product. It also has the power to examine any food which is intended for human consumption, and seize and remove such food or its packaging if it appears that such food is unfit for human consumption.

Food and Drugs (Composition and Labelling) Regulations

Food and Drugs (Composition and Labelling) Regulations (Chapter 132W, the Laws of Hong Kong) (the “**Food and Drugs Regulations**”) which are under the Public Health Ordinance, contains provisions for the advertising and labelling of food.

Regulation 3 of the Food and Drugs Regulations provides that the manufacturing of foods and drugs shall be up to the standards as specified under schedule 1 of the Food and Drugs Regulations.

Any person who advertises for sale, sells or manufactures for sale any food or drug which does not conform to the relevant requirements as to composition prescribed in schedule 1 to the Food and Drugs Regulations commits an offence and is liable to a fine of HK\$50,000 and to imprisonment for 6 months.

Regulation 4A of the Food and Drugs Regulations demands all pre-packaged food and products sold by the Group (except for those listed in schedule 4 to the Food and Drugs Regulations) to be marked and labeled in the manner prescribed in schedule 3 to the Food and Drugs Regulations. Schedule 3 contains labeling requirements in respect of stating the product’s name or designation, ingredients, “best before” or “use by” date, special conditions for storage or instruction for use, manufacturer’s or packer’s name and address, and count, weight or volume. Additionally, the schedule also includes requirements on the appropriate language or languages for marking or labeling pre-packaged food. Contravention of those requirements may result in a conviction carrying a maximum penalty of HK\$50,000 and six months imprisonment.

In accordance with Regulation 4B of the Food and Drugs Regulations, generally pre-packaged food sold by the Group should be marked or labeled with its energy value and nutrient content in the manner prescribed in part 1 of schedule 5 to the Food and Drugs Regulations, and nutrition claims, if any, made on the label of the product or in any advertisement for the product should comply with part 2 of schedule 5 to the Food and Drugs Regulations. Contravention of those requirements may result in a conviction carrying a maximum penalty of HK\$50,000 and six months imprisonment.

Undesirable Medical Advertisements Ordinance

The advertisements of the Group's products are also governed by the UMAO. The UMAO restricts certain advertisements relating to medical and health matters.

According to section 3 of the UMAO, unless by or with due authorisation from relevant authorities, no advertisement shall be published or caused to be published if it is likely to lead to the use of any medicine, surgical appliance or treatment for:

- (1) the treatment or prevention of any disease or condition listed in column 1 of schedule 1 to the UMAO, except for a purpose specified in column 2 of the schedule; and
- (2) the treatment of human beings for any purpose listed in schedule 2 to the UMAO.

Some diseases and conditions listed in schedule 1 to the UMAO include parasitic diseases, diseases of the heart or cardiovascular system, gastro-intestinal diseases, diseases of the nervous system, diseases of the blood or lymphatic system, diseases of the musculo-skeletal system, diseases of the skin, hair or scalp, and viral, bacterial, fungal or other infectious diseases.

The list in schedule 2 to the UMAO contains treatment of human beings for the purposes of:

- (1) the induction of menstruation or relief of amenorrhea or delayed menstruation of any other gynaecological or obstetrical disease;
- (2) the promotion of sexual virility, desire or fertility, or the restoration of lost youth; and
- (3) the correction of deformity or the surgical alteration of a person's appearance.

Section 3B of the UMAO provides that no person shall publish, or cause to be published, an advertisement for an orally consumed product which makes for the product a claim specified in column 1 of schedule 4 to the UMAO, or any similar claim, except as allowed under the provisions in column 2 of that schedule.

Any person who contravenes section 3 or 3B of the UMAO shall be guilty of an offence and shall be liable upon a first conviction to a fine of HK\$50,000 and imprisonment for 6 months and upon a second or subsequent conviction to a fine of HK\$100,000 and imprisonment for 1 year.

As the Group promotes its products by advertisements published in different channels, the contents of which are subject to section 3 and 3B of the UMAO. The Group has records of non-compliance of the UMAO during the Track Record Period. For details of such non-compliance, please refer to paragraph headed "Litigation and Compliance" in section headed "Business" in this prospectus.

Chinese Medicine Ordinance

Chinese Medicine Ordinance makes provisions for the registration of practitioners in Chinese medicine; the registration of PCM; the licensing of traders in Chinese medicines; and other related matters.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Registration of PCM

Section 119 of the Chinese Medicine Ordinance provides that no person shall sell, import or possess any PCM unless the PCM is registered with the Chinese Medicines Board of Chinese Medicine Council of Hong Kong (“CMB”). Application for registration of a PCM shall be submitted to the Department of Health in the manner prescribed in section 121 of the Chinese Medicine Ordinance.

Any person who contravenes section 119 of the Chinese Medicine Ordinance commits an offence and is liable to a maximum fine of HK\$100,000 and imprisonment for 2 years.

Having considered the sales history and situation of PCM in Hong Kong, an arrangement of transitional registration was provided under the Chinese Medicine Ordinance. Provided that an application was made within the period for transitional registration (i.e. 19 December 2003 to 30 June 2004 inclusive), the manufacturer or importer/local representative or agent of a manufacturer outside Hong Kong of a PCM manufactured, sold or supplied for sale in Hong Kong as at 1 March 1999 could apply for registration, and would be issued with a “Notice of confirmation of transitional registration of PCM” if the PCM concerned fulfills the relevant requirements and has submitted the basic information for safeguarding public health. Such PCM shall then be deemed to have registered in accordance with the Chinese Medicine Ordinance. Holder of the notice of confirmation is required to label the “Transitional Registration number (HKP-XXXXX)” on the outer box of the registered PCM.

On the other hand, the CMB has issued “Notice of confirmation of (non-transitional) registration application of PCM” to PCM which has submitted the application for registration and basic information for safeguarding public health on or before 31 March 2010. Such PCM has been provided an application serial number of HKNT-XXXXX.

For PCM issued with “Notice of confirmation of Transitional Registration of PCM”, “Notice of confirmation of (non-transitional) registration application of PCM” and applied for registration on or after 1 April 2010, the CMB will assess each application according to the set deadline for submission of document and requirements. Upon fulfillment of the safety, quality and efficacy requirements, the CMB will approve the application and issue “Certificate of Registration of a PCM”, which contains a registration number of HKC-XXXXX to the product concerned.

The requirements for registration of PCM are dependent on the classification category of the PCM under application, and the registration group selected by the applicant. Based on the composition, usage and sales history, PCM are classified into one of three different classification categories, namely the “Established medicines category”, “Non-established medicines category”, and “New medicines category”. “Health-preserving medicines” and “Other medicines” are the two sub-categories under the “Non-established medicines category”. The “Other medicines category” includes “Single Chinese medicine granules” that fall within the definition of PCM. The registration groups of PCM are Group I, Group II and Group III. Different registration groups have different registration requirements, and hence require different documents. For PCM under the “Established medicines category” and “Non-established medicines category”, applicants may choose to apply for registration in any of the three groups. However, for PCM in the “New medicines category”, as their compositions, routes of administration, indications or dose forms are different from traditional use, hence scientific evidence is essential to ensure their safety and efficacy and they must be registered according to Group III registration requirements.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

As Royal Medic CS-4 is a PCM product, the sale, marketing and distribution of the Royal Medic CS-4 is governed by the Chinese Medicine Ordinance. The Group has submitted an application for registration for Royal medic CS-4 as a PCM under the Chinese Medicine Ordinance. Please refer to the paragraph headed “Licences, Approvals and Application” in the section headed “Business” in this prospectus for details.

For any new PCM product now in development or that the Group may seek to develop in the future, the Group shall register the product with the Chinese Medicines Board of Chinese Medicine Council of Hong Kong pursuant to the Chinese Medicine Ordinance and obtain a certificate of registration before the Group introduces such product to the market.

Licensing of traders in Chinese medicines

Under the Chinese Medicine Ordinance, traders in Chinese medicines shall first obtain a licence issued by the CMB.

Section 111 of the Chinese Medicine Ordinance provides that no person shall sell by retail, dispense to another person, or possess for the purpose of retail, any Chinese herbal medicine without a retailer licence in respect of such Chinese herbal medicine, or at any place other than the premises specified in such licence.

Section 111 of the Chinese Medicine Ordinance also provides that no person shall sell or distribute by way of wholesale, or possess for the purpose of wholesale, any Chinese herbal medicine without a wholesaler licence in Chinese herbal medicines in respect of such Chinese herbal medicine, at any place other than the premises specified in such licence.

Section 131 of the Chinese Medicine Ordinance provides that no person shall manufacture any PCM, whether registered or not, without a manufacture licence, or at any place other than the premises specified in such licence.

Section 134 of the Chinese Medicine Ordinance provides that no person shall sale or distribute by way of wholesale, or possess for the purpose of wholesale, any PCM without a wholesaler licence in proprietary Chinese medicines, or at any place other than the premises specified in such licence.

The Group has obtained the manufacture licence, wholesaler licences and retailer licence under the Chinese Medicine Ordinance. Please refer to the paragraph headed “Licences, Approvals and Application” in the section headed “Business” in this prospectus for details.

The Chinese Medicine Ordinance does not require retailers of PCM products to obtain a licence, and therefore the Group’s retailers as well as its retail business need not apply for such licence.

Labeling requirements

Section 143 of the Chinese Medicine Ordinance provides that a PCM product shall not be sold in Hong Kong unless the package of the product is labeled in the prescribed manner.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Regulations 26 of the Chinese Medicine Regulations (Chapter 549F, the Laws of Hong Kong) (the “**Chinese Medicine Regulations**”) prescribes the particulars to be stated on the labels of PCM and also the manner in which they should be stated.

Requirements on package inserts

Section 144 of the Chinese Medicine Ordinance provides that sale of a PCM product in Hong Kong is prohibited unless the product is sold with a package insert which complies with the prescribed requirements. Such requirements are contained in regulation 28 of the Chinese Medicine Regulations.

According to regulation 28 of the Chinese Medicine Regulations, the package insert should set out, inter alia, particulars such as the name of the medicine, the active ingredients and their quantities, the name of the holder of certificate of registration or the name of the manufacturer, the dosage and method of usage of the medicine and the medicine’s toxic effects, if any.

Registration of practitioners in Chinese medicine

The Group has engaged two senior registered Chinese Medicine practitioners as host doctors at the Royal Medic Chinese Medicine Clinics. According to the Chinese Medicine Ordinance, a Chinese medicine practitioner is required to be listed or registered under the Chinese Medicine Ordinance before he is permitted to practise Chinese medicine in Hong Kong. The Chinese medicine practitioners under the employment of the Group are listed or registered under the Chinese Medicine Ordinance.

Medical Clinics Ordinance

Any premises used for the medical treatment are required to be registered under the Medical Clinics Ordinance (Chapter 343 of the Laws of Hong Kong). However, premises which are used exclusively by a Chinese medicine practitioner registered or listed under the Chinese Medicine Ordinance in the course of his practice are excluded from the registration requirements.

Each of the two Royal Medic Chinese Medicine Clinics is used exclusively by a Chinese medicine practitioner, who has been listed or registered under the Chinese Medicine Ordinance. Therefore, the Royal Medic Chinese Medicine Clinics are excluded from the registration requirements under the Medical Clinics Ordinance.

Food Safety Ordinance

Food Safety Ordinance (Chapter 612, the Laws of Hong Kong) (the “**Food Safety Ordinance**”) establishes a registration scheme for food importers and food distributors, to require the keeping of records by persons who acquire, capture, import or supply food and to enable food import controls to be imposed.

As the principal business of the Group is in the formulation, marketing, sale and distribution of health supplements and beauty supplements and products, the Group is subject to the regulation of the Food Safety Ordinance.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Registration as food importer or distributor

Sections 4 and 5 of the Food Safety Ordinance require any person who carries on a food importation business or food distribution business to register with the Food and Environmental Hygiene Department as a food importer or food distributor.

Any person who does not register but carries on a food importation or distribution business, without reasonable excuse, commits an offence and is liable to a maximum fine of \$50,000 and imprisonment for 6 months.

Record-keeping requirement relating to movement of food

Section 24 of the Food Safety Ordinance provides that a person who, in the course of business, supplies food in Hong Kong by wholesale must record the following information about the supply:

- (1) the date the food was supplied;
- (2) the name and contact details of the person to whom the food was supplied;
- (3) the total quantity of the food;
- (4) a description of the food.

A record must be made under this section within 72 hours after the time the supply took place.

Any person who fails to comply with the record-keeping requirement, without reasonable excuse, commits an offence and is liable to a maximum fine of \$10,000 and imprisonment for 3 months.

Import and Export Ordinance

The Import and Export Ordinance (Chapter 60, the Laws of Hong Kong) (the “**Import and Export Ordinance**”) and the sub-legislation under it, governs the importation of products into, and the export of products from Hong Kong.

Section 6C of the Import and Export Ordinance provides that no importation is allowed of the articles specified in schedule 1 to the Import and Export (General) Regulations unless with a proper licence issued by the Director — General of Trade and Industry under section 3 of the Import and Export Ordinance. According to schedule 1, importation of PCM products are subject to licensing control and must be covered by a proper import licence. The Directors confirmed that the Group has not imported any articles which would contravene section 6C of the Import and Export Ordinance.

Section 6D of the Import and Export Ordinance provides that no person shall export any article specified in the second column of schedule 2 to the Import and Export (General) Regulations to the place specified opposite thereto in the third column of the schedule unless with an export licence issued by the Director — General of Trade and Industry under section 3 of the Import and Export Ordinance. According to schedule 2, exportation of PCM products are subject to licensing control and must be covered by a proper export licence. The Directors confirmed that the Group has not exported any articles which would contravene section 6D of the Import and Export Ordinance.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

For the sale and distribution of the Group's products in Hong Kong, the Group import raw materials in powder form and semi-finished products into Hong Kong. With the exception of prohibited articles and certain restricted commodities, no licence is required for the import of any goods into Hong Kong.

Pharmacy and Poisons Ordinance

Sections 21 and 26 of the Pharmacy and Poisons Ordinance (Chapter 138, the Laws of Hong Kong) (the "**Pharmacy and Poisons Ordinance**") regulate the sale of certain poisons as listed in the Poison List Regulations, (Chapter 138B, the Laws of Hong Kong).

Section 28A of the Pharmacy and Poisons Ordinance prohibits person other than registered one from carrying on business as importer or exporter of pharmaceutical products and medicines.

Pharmacy and Poisons Regulations

Regulation 36 of the Pharmacy and Poisons Regulations (Chapter 138A, the Laws of Hong Kong) (the "**Pharmacy and Poisons Regulations**"), provides that no person shall sell, offer for sale or distribute or possess for the purposes of sale, distribution or other use any pharmaceutical product or substance unless the product or substance is registered under Pharmacy and Poisons Regulations.

Any person who contravenes regulation 36 of the Pharmacy and Poisons Regulations commits an offence and is liable to a maximum fine of HK\$100,000 and imprisonment for 2 years.

For any pharmaceutical product that the Group may seek to develop in the future, the Group shall register the product pursuant to the Pharmacy and Poisons Regulations and obtain a certificate of registration before the Group introduces such product to the market.

Waste Disposal (Chemical Waste) (General) Regulation

According to Regulation 6(1) of the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C, the Laws of Hong Kong) (the "**Waste Disposal (Chemical Waste) (General) Regulation**"), a person shall not produce or cause to be produced chemical waste unless he is registered.

Regulation 6(6) of the Waste Disposal (Chemical Waste) (General) Regulation further provides that any person who contravenes Regulation 6(1) of the Waste Disposal (Chemical Waste) (General) Regulation commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

Trade Descriptions Ordinance

The Trade Descriptions Ordinance (Chapter 362, the Laws of Hong Kong) (the "**Trade Descriptions Ordinance**") prohibits false trade description, false, misleading or incomplete information, false statements, etc., respecting goods offered in the course of trade. Therefore, all of the products and supplements sold by the Group are required to comply with the relevant provisions therein.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Section 2 of the Trade Descriptions Ordinance provides, inter alia, that “trade description” in relation to goods means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, quantity, method of manufacture, composition, fitness for purpose, availability, compliance with a standard specified or recognised by any person, price, their being of the same kind as goods supplied to a person, price, place or date of manufacture, production, processing or reconditioning, person by whom manufactured, produced, processed or reconditioned etc), with respect to any goods or parts of the goods; and in relation to services means an indication, direct or indirect, and by whatever means given, of certain matters (including among other things, nature, scope, quantity, fitness for purpose, method and procedures, availability, the person by whom the service is supplied, after-sale service assistance, price etc.).

Section 7 of the Trade Descriptions Ordinance provides that no person shall in the course of trade or business apply a false trade description to any goods or sell or offer for sale any goods with false trade descriptions applied thereto.

Section 7A of the Trade Descriptions Ordinance provides that a trader who applies a false trade description to a service supplied or offered to be supplied to a consumer, or supplies or offers to supply to a consumer a service to which a false trade description is applied, commits an offence.

Section 13E, 13F, 13G, 13H and 13I of the Trade Descriptions Ordinance provide that a trader who engages in relation to a consumer in a commercial practice that is a misleading omission or aggressive, or that constitutes bait advertising, a bait and switch or wrongly accepting payment for a product commits an offence.

A person who commits an offence under sections 7, 7A, 13E, 13F, 13G, 13H or 13I shall be subject, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for 5 years, and on summary conviction, to a fine at HK\$100,000 and to imprisonment for 2 years.

Trade Marks Ordinance

The Trade Marks Ordinance (Chapter 559, the Laws of Hong Kong) (the “**Trade Marks Ordinance**”) provides for the registration of trademarks and connected matters. Hong Kong provides territorial protection for trademarks. Therefore, trademarks registered in other countries or regions are not automatically entitled to protection in Hong Kong. In order to enjoy protection by the laws of Hong Kong, trademarks must be registered with the Trade Marks Registry of the Intellectual Property Department under the Trade Marks Ordinance and the Trade Marks Rules (Chapter 599A, the Laws of Hong Kong) (the “**Trade Marks Rules**”).

According to section 10 of the Trade Marks Ordinance, a registered trademark is a property right acquired through due registration under such ordinance. The owner of a registered trademark is entitled to the rights provided by the ordinance.

The Group is the registered owner and proprietor of the trademarks as set out in the paragraph headed “B. Further Information about the Business of the Group — 2. Intellectual property rights of the Group” in Appendix V to this prospectus.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

By virtue of section 14 of the Trade Marks Ordinance, the owner of a registered trademark is conferred exclusive rights in the trademark. The rights of the owner respecting the registered trademark come into existence from the date of the registration of the trademark. According to section 48 of such ordinance, the registration date is the filing date of the application for registration.

Subject to the exceptions in section 19 to section 21 of the Trade Marks Ordinance, any use of the trademark by third parties without the consent of the owner is an infringement of the trademark. Conducts which amount to infringement of the registered trademark are further specified in section 18 of the same ordinance.

The owner of the registered trademark is entitled to remedies under the Trade Marks Ordinance once any infringement by third parties occurs, such as infringement proceedings provided for in section 23 and section 25 of the Trade Marks Ordinance.

Trademarks which are not registered under the Trade Marks Ordinance and the Trade Marks Rules may still obtain protection by the common law action of passing off, which requires proof of the owner's reputation in the unregistered trademark and that use of the trademark by third parties will cause the owner damage.

Copyright Ordinance

The Copyright Ordinance (Chapter 528, the Laws of Hong Kong) (the “**Copyright Ordinance**”) currently in force in Hong Kong has come into effect since 27 June 1997. The Copyright Ordinance as reviewed and revised from time to time provides comprehensive protection for recognised categories of literary, dramatic, musical and artistic works, as well as for films, television broadcasts and cable diffusion, and works made available to the public on the Internet.

In the course of designing its product packaging, the Group may create original artistic works (such as drawings) or literary works (such as text) that qualify for copyright protection. No registration is required. Infringement of copyright is civilly actionable.

Sale of Goods Ordinance

The Sale of Goods Ordinance (Chapter 26, the Laws of Hong Kong) (the “**Sale of Goods Ordinance**”) provides, inter alia, that where a seller sells goods in the course of a business, there is an implied condition that (i) where the goods are purchased by description, the goods must correspond with the description; (ii) the goods supplied are of merchantable quality; and (iii) the goods must be fit for the purpose for which they are purchased. Otherwise, a buyer has the right to reject defective goods unless he or she has a reasonable opportunity to examine the goods.

The Sale of Goods Ordinance provides implied terms for the standard of goods sold by the Group to its customers. The business of the Group involves the formulation, marketing, sale and distribution of health supplements and beauty supplements and products, which is subject to the Sale of Goods Ordinance. A breach of the terms may give rise to a civil action for breach of contract by the customer. However, no criminal liability arises from a breach of the implied terms.

Principal regulatory authorities in Hong Kong

The Group's business in Hong Kong is primarily under the regulation of the following administrative authorities:

- (1) the Department of Health (“香港衛生署”);
- (2) the Chinese Medicine Council of Hong Kong (“香港中醫藥管理委員會”) (“CMC”) and CMB (“中藥組”).
- (3) the Customs and Excise Department (“香港海關”);
- (4) the Consumer Council (“消費者委員會”);
- (5) the Centre for Food Safety (“食物安全中心”);
- (6) the Food and Environmental Hygiene Department (“食物環境衛生署”);
- (7) the Food and Health Bureau (“食物及衛生局”);
- (8) the Trade and Industry Department (“工業貿易署”); and
- (9) the Intellectual Property Department (“知識產權署”).

The Department of Health is the government agency responsible for the execution of health care policies and statutory functions. Two divisions under the department conduct duties that are particularly relevant to the Group's business, namely the Chinese Medicine Division (“中醫藥事務部”) and the Pharmaceutical Service (“藥劑事務部”).

The Chinese Medicine Division is responsible for the enforcement of the Chinese Medicine Ordinance. It provides professional and administrative support to the CMC, the CMB and the committees under the CMB, and implements the relevant regulations and other regulatory measures formulated by the CMC.

The CMC is a statutory body formed pursuant to the Chinese Medicine Ordinance, and is responsible for formulating and carrying out regulatory measures in respect of Chinese medicines. The CMB, established under the CMC, issues regulatory measures regulating Chinese medicine products and Chinese medicine traders. Further, under the CMB there are committees serving different functions such as registration of PCM and licensing medicine traders.

The Customs and Excise Department controls imports into and exports from Hong Kong. It is also the only government department responsible for taking sanctions against copyright and trademark infringement of criminal nature. Furthermore, the department also protects the interest of consumers in Hong Kong by implementing the relevant requirements in the Trade Descriptions Ordinance.

The Consumer Council is a statutory body established under the Consumer Council Ordinance (Chapter 216, the Laws of Hong Kong). Its statutory functions are protecting and promoting the interests of consumers of goods and services. It answers consumer enquiries, handles consumer complaints and releases product testing, research and survey results.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The Food and Environmental Hygiene Department, the Centre for Food Safety and the Food and Health Bureau are responsible for ensuring food safety in Hong Kong. The Food and Environmental Hygiene Department implements policies on, inter alia, food safety control and enforces food legislation by investigating reports of food unfit for human consumption and complaints on food labelling, issuing export or re-export food health certificates upon application.

The Trade and Industry Department is the government agency for leading, supporting and facilitating the development of trade and industry in Hong Kong. According to the Import and Export Ordinance and the Import and Export (General) Regulations 《進出口(一般)規例》 (Chapter 60A, the Laws of Hong Kong) (the “**Import and Export (General) Regulations**”), no person shall import into or export from Hong Kong PCM or western medicines unless with a proper licence issued by the Director- General of Trade and Industry.

The Intellectual Property Department aims to maintain the protection of intellectual property rights in Hong Kong, and processes applications for registration of patents, trademarks and designs.

Taiwan Regulatory Overview

The following sets forth a summary of the most significant aspects of Taiwan laws and regulations relating the Group’s business operations in Taiwan.

Foreign investments in Taiwan — Statute for Investment by Foreign Nationals (外國人投資條例)

Except for those who have registered their investments in the Taiwan securities market with the Taiwan Stock Exchange, any foreign investors who wish to make a direct investment in a Taiwan company are required to apply for a foreign investment approval (“**FIA**”) with the Investment Commission of the Ministry of Economic Affairs or other relevant authorities in accordance with the Statute for Investment by Foreign Nationals. The Investment Commission and/or other relevant authorities will decide whether or not to grant an FIA application after consulting with other governmental agencies (such as the Central Bank of China and the Financial Supervisory Commission).

A foreign investor who has obtained an FIA may repatriate annual net profits, interest and cash dividends attributable to the approved investment.

Sale of Food, Health Food and Chinese Medicine

The Group is subject to various laws and regulations in conducting its business, including but not limited to those on the sale of food, health food and Chinese medicine in Taiwan. In addition to applying for corporate registration with the Ministry of Economic Affairs, special licenses may be required for the sale of food, health food and Chinese medicine in Taiwan.

The Food and Drugs Administration (the “**FDA**”) of the Ministry of Health and Welfare of Taiwan (the “**MOHT**”) is responsible for ensuring and supervising the safety of food, health food, drugs and cosmetic products and enforcing relevant regulations and rules.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

1. *Food Sanitation Act* (食品衛生管理法)

The Food Sanitation Act was enacted on 28 January 1975 for the regulation of food sanitation, safety and quality. Any edible substance offered to the public is considered food. Those businesses engaging in the manufacture, processing, preparation, packaging, transportation, storage, sale, import or export of foods are considered food businesses. All food businesses engaging in food production and trade in Taiwan are subject to Food Sanitation Act.

In general, manufacture and sale of food in Taiwan do not require a permit. The MOHT has stipulated that manufacturing, processing, preparing, repacking, importing or exporting of certain food, food additives, food containers and food packaging requires a special permit from the MOHT. Currently, the MOHT has identified the following food items that need to be registered with and approved by the MOHT before the manufacture and sale thereof: (1) food imported in the form of tablets and capsules (輸入錠狀膠囊狀食品); (2) made-in-Taiwan vitamin in the form of tablets and capsules (國產維生素類錠狀膠囊狀食品); (3) GMO food (基因改造食品); (4) special dietary food (for infants and patients with certain special diseases) (特殊營養食品); and (5) food additives (食品添加物). The Group's products that were selling in Taiwan as at the Latest Practicable Date does not fall into the aforesaid categories and hence can be sold as food in Taiwan without a special permit.

The Food Sanitation Act prohibits the use of false, exaggerated or misleading words or descriptions in the labeling, promotion and advertisement of food. In addition, food should not be labeled, promoted or advertised as having medicinal effects.

2. *Health Food Control Act* (健康食品管理法)

The Health Food Control Act was effective on 3 August 1999 to regulate health food and to protect the health of the public and the rights and interests of consumers. The Health Food Control Act contains provisions on the definition, safety, sanitation, labeling and advertisement of health food.

A health food is defined under the Health Food Control Act as food with health care effect and labeled and/or advertised as such. Health care effect refers to a scientifically proven effect improving health and reducing harm or risk of a disease. The labeling and/or advertisement of health care effect of treating of disease are restricted to those announced by the MOHT. The manufacture, import or sale of a health food is subject to the MOHT's prior approval.

No food should be labeled or advertised as a health food unless approved by the MOHT. The labeling or advertisement of a health food should not contain any misrepresentation or exaggeration. Health claims must not exceed the scope approved by MOHT. The labeling or advertisement of a health food should not contain any claim or reference to medicinal effects.

As at the Latest Practicable Date, none of the Group's products selling in Taiwan was labeled and/or advertised as a health food and the approval from the MOHT is not required.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

3. *Pharmaceutical Affairs Act (藥事法)*

The manufacture, import, export and sale of drugs (including western and Chinese medicine) in Taiwan are regulated by the Pharmaceutical Affairs Act. The Pharmaceutical Affairs Act covers a wide range of matters, including the management of pharmaceutical firms, the registration and marketing of drugs, the sale and manufacture of drugs and the advertisement of drugs.

Pharmaceutical firms, including drug dealers and drug manufacturers, can operate business only after they are duly registered with the local health authorities and have obtained a pharmaceutical dealer license. No manufacturing or importation of drugs is permitted unless a product license has been obtained from the MOHT.

The advertisement of drugs is highly regulated in Taiwan. Persons other than pharmaceutical firms are not permitted to advertise drugs. Interviews, news reports or propaganda containing information implying medicinal effects are regarded as advertisements of drugs. No pictorial or literal description or propaganda regarding the medicinal effects of any product is permitted unless approved by the MOHT. Advertisements of drugs are subject to the approval of the MOHT or the local health authorities; the term of a drug advertisement approval is one year.

As at the Latest Practicable Date, none of the Group's product selling in Taiwan was classified as a drug under Pharmaceutical Affairs Act or was labeled and/or advertised as a drug.

HISTORY AND DEVELOPMENT

HISTORY

The Company

The Company was incorporated in the Cayman Islands on 5 December 2011 in accordance with the Companies Law as an exempted company in anticipation of the Listing. The Group is engaged in the business of formulation, marketing, sales and distribution of health supplements and beauty supplements and products mainly in Hong Kong. The Group sold products under its proprietary brands. The Group managed and sold the Distribution Facilitator's private label brands products, which are specifically developed and supplied by the Group for the Distribution Facilitator. The Group manages both proprietary brands and private label brands products and outsources most of its production to its suppliers and subcontracting manufacturers. The Group distributes its products mainly through the Distribution Facilitator. The Group also operates two Chinese medicine clinics to provide traditional Chinese medicine treatments, services and retailing of health supplements to the general public consumers.

As at the date of its incorporation, the Company had an authorised share capital of HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 each, of which one Share was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, being the subscriber to the Memorandum and the Articles. On 5 December 2011, the one Share held by Codan Trust Company (Cayman) Limited was transferred to Able Island.

On 16 September 2013, the share capital of the Company was subdivided in such manner that every one existing Share of HK\$0.1 each was divided into ten Shares of HK\$0.01 each. Subsequent to the subdivision, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 Shares and the issued share capital of the Company was HK\$0.1 divided into ten Shares of HK\$0.01 each.

On 23 September 2013, the Company allotted and issued 999,990 Shares (all credited as fully paid) to Able Island and credited as fully paid at par the ten Shares held by Able Island as consideration for Able Island transferring the entire issued share capital of Noble State to the Company pursuant to a sale and purchase agreement entered into between the Company as purchaser and Able Island as vendor dated 23 September 2013.

On 24 September 2013, the authorised share capital of the Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of an additional 962,000,000 Shares of which the rights are identical to that of the existing Shares in all aspect pursuant to a resolution in writing passed by the sole Shareholder.

Origin of the Group

The Group owes its origin to A.S. Wat International (previously known as "Tianren Pharmaceutical (International) Limited"), which was incorporated in Hong Kong in 2002. A.S. Wat International was an indirectly owned company of Wisdom Come Consultant Company Limited through Wealth International and Medalist. Wisdom Come Consultant Company Limited was set up by Mr. Chan's father Mr. Chan Ping Fung ("**Mr. Chan Senior**") and sister Ms. Chan Ching Ying ("**Ms. Chan**") in 2001 with an authorised share capital of \$10,000.00 divided into 10,000 shares of \$1 each, 1 share and 99 shares were issued to Mr. Chan Senior and Ms. Chan of nominal value. Mr. Chan Senior

HISTORY AND DEVELOPMENT

and Ms. Chan transferred their ownership of A.S. Wat International to Mr. Chan's sister-in-law, Ms. Tsang Pui Yin (“**Ms. Tsang**”) in 2003 by transferring their shares in Wealth International and Medalist to Able Island. Ms. Tsang was the then sole shareholder of Able Island. Ms. Tsang transferred the entire issued share capital of Able Island in 2005 and thereby transferred the ownership of A.S. Wat International to Mr. Chan.

Medalist, incorporated in 2002 in BVI, acquired the formulae of, *inter alia*, Hang Kwan Pills¹ (行軍丸), Liu Wei Di Huang Wan (六味地黃丸)² and flu tea from Hong Kong Ever Spring Medicine Factory and other related rights such as intellectual property rights. Medalist subsequently held various trademarks owned by the Group in Hong Kong and PRC, such as “四時春一九六五” (Ever Spring 1965), “四時春” (Ever Spring), Herballand, “御” (Royal) and “御藥堂” (Royal Medic). Wealth International was also established in the same year and subsequently became the holding company of three operating subsidiaries in Hong Kong, namely A.S. Wat International, Wisdom Come Marketing and A.S. Wat HK. A.S. Wat International and A.S. Wat HK principally engaged in supplying health dietary products, in particular herbal dietary supplements, under the brand of “御藥堂” (Royal Medic), such as Royal Medic Genuine Ganoderma, Royal Medic Ganoderma Spore, Royal Vitality and Royal Medic Chinese Caterpillar Fungi to a large scale local retail chain in Hong Kong, when the Group commenced using the said retail chain as a retail platform to sell the Group's products. Mr. Chan has participated in the operation of the Group since 2003 as a senior manager.

Apex Consultant and Royal Medic Holdings were set up in 2003 and 2004, respectively, to hold licences required for the operation of the Group, such as wholesaler licence in Chinese herbal medicines and retailer licences in Chinese herbal medicines. In 2004, Wisdom Health Products, Creation Chance and HK Ever Spring were established as the trading, operation and production arms of the business of the Group, respectively. Wisdom Health Products mainly engages in trading of health supplements and beauty supplements and products with the Group's distributors and customers. Creation Chance purchases raw materials from suppliers, conducts advertising and promotional activities and performs general administration functions for the Group such as the employment of staff. HK Ever Spring is primarily responsible for purchasing certain raw materials, subcontracting production and holding licences necessary for the operation of the Group. Wisdom Come Medical was set up in August 2004 and subsequently became the intermediate holding company of the Group in 2005.

In 2005, Mr. Chan took over the management and the entire ownership of the Group and implemented new plans and strategies to gradually restructure and reform the business and management of the Group. The Group commenced supplying its products to the Distribution Facilitator in 2005 and the Group has maintained its business relationship with the Distribution Facilitator since then. Leveraging on the extensive retail network of the Distribution Facilitator with approximately 355 stores in Hong Kong and approximately 15 stores in Macau and the strong marketing and advertising coverage

¹ The Group was issued with a “Notice of confirmation of transitional registration of PCM” and provided with the transitional registration number HKP-14812 for Hang Kwan Pills pursuant to the Chinese Medicine Ordinance and were deemed to have been registered in accordance with the Chinese Medicine Ordinance. The Directors confirm that this product is not material to the Group's current business and operation as the Group has ceased to sell this product since 2008.

² The Group was issued with a “Notice of confirmation of transitional registration of PCM” and provided with the transitional registration number HKP-14809 for Liu Wei Di Huang Wan pursuant to the Chinese Medicine Ordinance and was deemed to have been registered in accordance with the Chinese Medicine Ordinance. The Directors confirm that this product is not material to the Group's current business and operation as this product has not been sold by the Group since the Group acquired the rights to the product in 2002.

HISTORY AND DEVELOPMENT

for its brand throughout Hong Kong, the Group is able to target its products at different consumer groups located in all districts in Hong Kong. The Group has since distributed the majority of its products, including PCM and non-PCM health supplements and beauty supplements and products, through the Distribution Facilitator. For further details of the Group's business relationship with the Distribution Facilitator, please refer to the paragraph headed "The Group's Dealings with the Distribution Facilitator" in the section headed "Business" in this prospectus.

Rich Sunny was set up in 2006 to hold properties acquired for business occupation purposes. The first property of the Group was purchased in the same year and it was being used as the headquarters of the Group. In the same year, Royal Medic CMC was incorporated mainly to set up Royal Medic Chinese Medicine Clinic (御藥堂中醫中藥坊), which provides traditional Chinese medicine treatments, services and retailing of health supplements to the general public consumers.

In 2008, the Group launched its leading product, Royal Medic CS-4, and soon it became a popular Cordyceps product in the Hong Kong market. According to the reports issued by an independent global marketing research firm, Royal Medic CS-4 ranked first in terms of sales in the Cordyceps market in Hong Kong for five consecutive years ended August 2013. In addition, the Group has been awarded and qualified in "A-Mark Quality Chinese Medicine Authentication Certificate" by Hong Kong Chinese Medicine Authentication Centre in 2008. The Group also set up its first SDC within a store of the Distribution Facilitator in 2009.

As a milestone for establishing the Group's business relationship with the Distribution Facilitator, the Group entered into two private label products agreements with the owner of the Distribution Facilitator in 2010 and 2011, respectively, through Kiwi Lab International and Health Proof International, to develop and supply health supplements and beauty supplements and products under these two private label products agreements.

In 2013, one of the top selling products of the Group, RM Broken Ganoderma Spore, has also been awarded and qualified in "A-Mark Quality Chinese Medicine Authentication Certificate" by Hong Kong Chinese Medicine Authentication Centre. In addition, the Group engaged IACM to conduct a preliminary clinical trial on RM Broken Ganoderma Spore. IACM concluded that, according to the preliminary clinical trial, RM Broken Ganoderma Spore may assist in stabilising blood lipids, blood glucose and cholesterol. Please refer to the paragraphs headed "Collaboration with external research partners" under the sub-section "Product Development and Research" in the "Business" section in this prospectus for further details relating to the preliminary clinical trials. Please also refer to the paragraph headed "Disclaimer" under the sub-section "The Group's Products and Services" in the "Business" section in this prospectus.

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Set out below are the major milestones of the Group's business since its establishment:

2002 A.S. Wat International was established and owned by the family members of Mr. Chan.

2003 Medalist acquired the formulae of, *inter alia*, Hang Kwan Pills (行軍丸), Liu Wei Di Huang Wan (六味地黃丸) and flu tea from Hong Kong Ever Spring Medicine Factory and carried out the registration procedures for manufacturing and sales of Chinese medicines in the name of Ever Spring. The Group subsequently incorporated HK Ever Spring in 2004.

The Group's membership club, the "Wisdom Club" ("凝智會") was established for the purposes of promoting the Group's products, building customer loyalty and providing latest information of the Group's products to its members, who are also the general public consumers.

2005 Mr. Chan took over the management and the entire ownership of the Group. The Group entered into the Trading Terms Agreement with the owner of Distribution Facilitator and commenced sales of the Group's products through the Distribution Facilitator's stores.

2006 The Group purchased its first property in Kwai Chung to use as the Group's headquarters.

The Group set up a Royal Medic Concept Store in Tsuen Wan Plaza as a speciality store to retail the Group's products (ceased operation in 2008 when the Group's tenancy expired).

The Group set up its first Royal Medic Chinese Medicine Clinic in Wan Chai (ceased operation in 2008 when the Group's tenancy expired).

The Group participated in the annual Hong Kong Brands and Products Expo for the first time and thereafter every subsequent year.

2007 Established the second Royal Medic Chinese Medicine Clinic in the Distribution Facilitator's store located at Taikoo Place, Quarry Bay.

2008 The Group launched Royal Medic CS-4, which subsequently became the best-selling product of the Group.

Royal Medic CS-4 was awarded and qualified in "A-Mark Quality Chinese Medicine Authentication Certificate" by Hong Kong Chinese Medicine Authentication Centre.

The "Double-blinded Preliminary Clinical Trial" (雙盲初步臨床測試) conducted by IACM has proven that Royal Medic CS-4 effectively improved insomnia condition in 82% of the participants. Please refer to the paragraphs headed "Collaboration with external research partners" under the sub-section "Product Development and Research" in the "Business" section in this prospectus for further details relating to the preliminary clinical trials.

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- 2009 The Group set up its first SDCs within the Distribution Facilitator's store.
- 2010 The Group expanded the sales of its health supplements to Macau through the Distribution Facilitator.

The Group entered into a private label products agreement with the owner of the Distribution Facilitator to develop and supply health supplements and beauty supplements and products under the Distribution Facilitator's private label, "Kiwi Lab". Kiwi Lab series products were launched in the same year.

According to a report issued by an independent global marketing research firm, the Group's leading product, Royal Medic CS-4, ranked first in terms of sales value among all Cordyceps products in Hong Kong from 2010 for five consecutive years ended August 2013.

- 2011 The Group entered into a private label products agreement with the owner of the Distribution Facilitator to develop and supply health supplements and beauty supplements and products under the Distribution Facilitator's private label, "Health Proof". Health Proof series products were launched in the same year.
- 2012 The Group set up another Royal Medic Chinese Medicine Clinic in the Distribution Facilitator's store located at Sino Cheer Plaza, Jordan.
- 2013 RM Broken Ganoderma Spore has been awarded and qualified in "A-Mark Quality Chinese Medicine Authentication Certificate" by Hong Kong Chinese Medicine Authentication Centre.

The Group engaged IACM to conduct a preliminary clinical trial on RM Broken Ganoderma Spore, IACM concluded that, according to the preliminary clinical trial, RM Broken Ganoderma Spore may assist in stabilising blood lipids, blood glucose and cholesterol. Please refer to the paragraphs headed "Collaboration with external research partners" under the sub-section "Product Development and Research" in the "Business" section in this prospectus for further details relating to the preliminary clinical trials. Please also refer to the paragraph headed "Disclaimer" under the sub-section "The Group's Products and Services" in the "Business" section in this prospectus.

HISTORY AND DEVELOPMENT

Corporate history

1. *The Company's major subsidiaries*

The following is a brief corporate history of the establishment and major changes in the shareholdings of the Company's major direct or indirect wholly-owned subsidiaries.

Apex Consultant

Apex Consultant was incorporated in Hong Kong on 26 March 2003 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to each of Smart Registrations Limited and Smart Secretarial Limited as subscribers. On 30 September 2003, Apex Consultant allotted 9,998 fully paid shares of HK\$1.00 each to Able Island. On 3 October 2003, Smart Registrations Limited transferred one share in Apex Consultant to Ms. Li Kin, an ex-director of certain subsidiaries of the Group, whereas Smart Secretarial Limited transferred one share in Apex Consultant to Able Island at a total consideration of HK\$1.00, respectively.

On 7 November 2005, Ms. Li transferred the one share in Apex Consultant to Able Island at a total consideration of HK\$1.00. On the same day, Apex Consultant became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the entire issued share capital of Apex Consultant owned by Able Island at a total consideration of HK\$10,000.00.

Wisdom Health Products

Wisdom Health Products was incorporated in Hong Kong on 5 January 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to each of Apex Consultant and Ms. Li Kin, an ex-director of certain subsidiaries of the Group, as subscribers. On 28 April 2004, Ms. Li transferred one share in Wisdom Health Products to Apex Consultant at a total consideration of HK\$1.00. On the same day, Apex Consultant transferred the entire issued share capital of Wisdom Health Products to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, at a total consideration of HK\$1.00. Ms. Cheng was a nominee of Mr. Chan pursuant to a declaration of trust dated 28 April 2004.

On 12 November 2005, Wisdom Health Products became a wholly-owned subsidiary of Wisdom Come Medical when Ms. Cheng transferred the two shares of Wisdom Health Products to Wisdom Come Medical at a total consideration of HK\$2.00.

Creation Chance

Creation Chance was incorporated in Hong Kong on 5 March 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, the entire issued share capital of Creation Chance was wholly owned (represented by one share of Creation Chance) by Cartech Limited as subscriber. On 25 June 2004, Cartech Limited transferred one share in Creation Chance to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, at a total consideration of HK\$1.00. On 18 November 2005, Creation Chance became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the one share of Creation Chance owned by Ms. Cheng at a total consideration of HK\$1.00.

HISTORY AND DEVELOPMENT

HK Ever Spring

HK Ever Spring was incorporated in Hong Kong on 12 May 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, the entire issued share capital of HK Ever Spring was wholly owned (represented by one share of HK Ever Spring) by Medalist. On 7 July 2004, Medalist transferred one share in HK Ever Spring to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, at a total consideration of HK\$1.00. On 7 November 2005, HK Ever Spring became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the one share of HK Ever Spring owned by Ms. Cheng at a total consideration of HK\$1.00.

Royal Medic Holdings

Royal Medic Holdings was incorporated in Hong Kong on 11 June 2004 with an authorized share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, the entire issued share capital of Royal Medic Holdings was wholly owned (represented by one share of Royal Medic Holdings) by Cartech Limited. On 16 June 2004, Cartech Limited transferred one share in Royal Medic Holdings to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, at a total consideration of HK\$1.00.

On 1 November 2005, Royal Medic Holdings allotted 95 fully paid shares of HK\$1.00 each to Wisdom Come Medical and four fully paid shares of HK\$1.00 each to Able Base Profits Limited, an Independent Third Party, respectively. On 7 November 2005, Ms. Cheng transferred one share in Royal Medic Holdings to Wisdom Come Medical at a total consideration of HK\$1.00. On 16 March 2007, Royal Medic Holdings became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the four shares of Royal Medic Holdings from Able Base Profits Limited at a total consideration of HK\$330,000.00.

Wisdom Come Medical

Wisdom Come Medical was incorporated in Hong Kong on 20 August 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Mr. Lee Chi Hang Sidney, an ex-director of Wisdom Come Medical and legal adviser of the Group, as subscriber. Mr. Lee was a nominee of Able Island pursuant to a declaration of trust dated 12 August 2004. On 1 November 2005, Wisdom Come Medical allotted 95 fully paid shares of HK\$1.00 each to Able Island and four fully paid shares of HK\$1.00 each to Mr. Lee respectively. Mr. Lee was a nominee of Able Island pursuant to a declaration of trust dated 1 November 2005. On 10 July 2007, Mr. Lee transferred the five shares of Wisdom Come Medical registered in his name back to Able Island and subsequently, Able Island became the registered holder of the entire issued share capital of Wisdom Come Medical.

Royal Medic CMC

Royal Medic CMC was incorporated in Hong Kong on 2 March 2006 with an authorized share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 18 April 2006, Cartech Limited transferred one share in Royal Medic CMC to Wisdom Come Medical at a total

HISTORY AND DEVELOPMENT

consideration of HK\$1.00. On 27 April 2006, Royal Medic CMC allotted two fully paid shares of HK\$1.00 each to Mr. Lee Kwai Yau, a nominee of Wisdom Come Medical pursuant to a declaration of trust dated 27 April 2006 and an Independent Third Party. On 28 November 2006, Mr. Lee transferred the two shares of Royal Medic CMC registered in his name back to Wisdom Come Medical and subsequently, Wisdom Come Medical became the registered holder of the entire issued share capital of Royal Medic CMC.

M2C

M2C was incorporated in Hong Kong on 31 March 2006 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Mr. Lee Chi Hang Sidney, an ex-director of Wisdom Come Medical and legal adviser of the Group, as subscriber. On 19 May 2006, M2C became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the one share of M2C owned by Mr. Lee at a consideration of HK\$1.00.

Rich Sunny

Rich Sunny was incorporated in Hong Kong on 3 May 2006 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited. On 30 June 2006, Rich Sunny became a wholly-owned subsidiary of Wisdom Health Products when Wisdom Health Products acquired the one share of Rich Sunny held by Cartech Limited at a total consideration of HK\$1.00.

Eastern Bright

Eastern Bright was incorporated in Hong Kong on 3 March 2010 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 2 September 2010, one share of Eastern Bright was transferred to Mr. Wong Ting Wah, an ex-employee of the Group, at a total consideration of HK\$1.00. Mr. Wong Ting Wah was a nominee of Wisdom Come Medical pursuant to a declaration of trust dated 2 September 2010. On 26 April 2012, Mr. Wong Ting Wah transferred the one share of Eastern Bright registered in his name back to Wisdom Come Medical and subsequently, Wisdom Come Medical became the registered holder of the entire issued share capital of Eastern Bright.

Kiwi Lab International

Kiwi Lab International was incorporated in Hong Kong on 1 April 2010 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 17 June 2010, Kiwi Lab International became a wholly-owned subsidiary of Able Island when Able Island acquired the one share of Kiwi Lab International owned by Cartech Limited at a consideration of HK\$1.00.

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Sunny Regent

Sunny Regent was incorporated in Hong Kong on 22 April 2010 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 2 September 2010, one share of Sunny Regent was transferred to Ms. Fong Wai Man Candy, an employee of the Group, at a total consideration of HK\$1.00. Ms. Fong Wai Man Candy was a nominee of Wisdom Come Medical pursuant to a declaration of trust dated 2 September 2010. On 26 April 2012, Ms. Fong Wai Man Candy transferred the one share of Sunny Regent registered in her name back to Wisdom Come Medical and subsequently, Wisdom Come Medical became the registered holder of the entire issued share capital of Sunny Regent.

Super Pioneer

Super Pioneer was incorporated in Hong Kong on 26 April 2011 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 27 June 2011, one share of Super Pioneer was transferred to Mr. Wong Ching Tat Leslie, an ex-employee of the Group, at a total consideration of HK\$1.00. Mr. Wong Ching Tat Leslie was a nominee of Wisdom Come Medical pursuant to a declaration of trust dated 27 June 2011. On 26 April 2012, Mr. Wong Ching Tat Leslie transferred the one share of Super Pioneer registered in his name to Wisdom Come Medical and subsequently, Wisdom Come Medical became the registered holder of the entire issued share capital of Super Pioneer.

Health Proof International

Health Proof International was incorporated in Hong Kong on 7 June 2011 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Able Island as subscriber.

Medalist

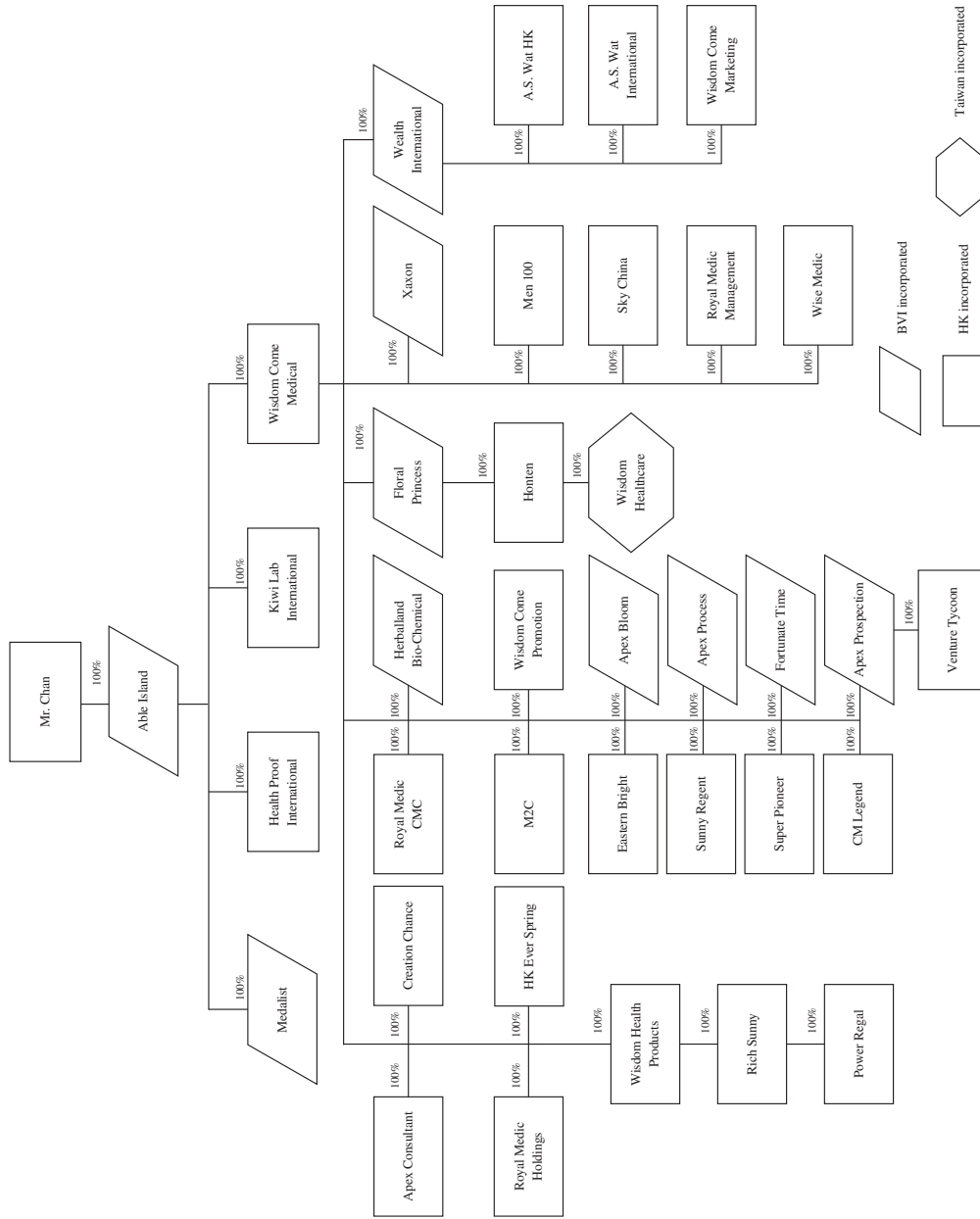
Medalist was incorporated in BVI on 18 October 2002 with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and one share was issued to Wisdom Come Consultant Company Limited on 20 January 2003. On 25 September 2003, Medalist became a wholly-owned subsidiary of Able Island when Able Island acquired the one share of Medalist owned by Wisdom Come Consultant Company Limited at a total consideration of US\$1.00.

Wisdom Healthcare

On 19 March 2013, Wisdom Healthcare was incorporated in Taiwan with a capital contribution of NT\$10,000,000. The entire capital contribution of Wisdom Healthcare is owned by Honten. Wisdom Healthcare was incorporated to act as the Group's operating subsidiary in Taiwan.

HISTORY AND DEVELOPMENT

The following diagram sets out the shareholdings and corporate structure of the Group before the Reorganisation.



HISTORY AND DEVELOPMENT

2. *Reorganisation*

The Group has undergone a reorganisation in preparation for the Listing which involved the following material steps:

(a) *Incorporation of Noble State*

Noble State was incorporated on 16 November 2011 under the laws of BVI and is authorised to issue 50,000 shares of US\$1.00 each. On 5 December 2011, one share of Noble State was allotted and issued fully paid up for cash at par to Able Island.

(b) *Acquisition of operating subsidiaries from Able Island*

Acquisition of Health Proof

Health Proof International is one of the operating subsidiaries of the Group, which is principally engaged in developing and sourcing health supplements and beauty supplements and products under the private labels of the Distribution Facilitator. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Apex Bloom as purchaser and Able Island as vendor, Apex Bloom acquired from Able Island one share of Health Proof International, representing the entire issued share capital of Health Proof International, at a consideration of HK\$1.00 on 11 September 2013. The consideration was determined with reference to the net asset value of Health Proof International and was fully settled in cash on 10 September 2013.

Acquisition of Kiwi Lab International

Kiwi Lab International is one of the operating subsidiaries of the Group, which is principally engaged in developing and sourcing health supplements and beauty supplements and products under the private label of the Distribution Facilitator. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Apex Process as purchaser and Able Island as vendor, Apex Process acquired from Able Island one share of Kiwi Lab International, representing the entire issued share capital of Kiwi Lab International at a consideration of HK\$1.00 on 11 September 2013. The consideration was determined with reference to the net asset value of Kiwi Lab International and was fully settled in cash on 10 September 2013.

Acquisition of Medalist

Medalist is the holder of certain material trademarks of the Group. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as purchaser and Able Island as vendor, Wisdom Come Medical acquired from Able Island one share of Medalist, representing the entire issued share capital of Medalist, at a consideration of HK\$1.00 on 10 September 2013. The consideration was determined with reference to the net asset value of Medalist, which was fully satisfied by Wisdom Come Medical allotting and issuing one share of HK\$1.00 credited as fully paid up in the capital of Wisdom Come Medical to Able Island on 10 September 2013.

HISTORY AND DEVELOPMENT

(c) *Disposal of non-operating and inactive subsidiaries to Mr. Chan and/or his associate*

Disposal of Xaxon

Xaxon was incorporated in BVI on 24 June 2004 with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each. Xaxon did not have any operation and was inactive during the Track Record Period. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Mr. Chan as purchaser, Wisdom Come Medical transferred to Mr. Chan one share of Xaxon, representing the entire issued share capital of Xaxon, at a consideration of HK\$1.00 on 10 September 2013. The consideration was determined with reference to the net asset value of Xaxon and was fully settled in cash on 10 September 2013.

Disposal of Wealth International

Wealth International was incorporated in BVI on 22 October 2002 with an authorized share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each. Wealth International was the holding company of A.S. Wat International, A.S. Wat HK and Wisdom Come Marketing. A.S. Wat International and A.S. Wat HK were previously engaged in trading of the Group's products. After Mr. Chan had taken over the overall management and the entire ownership of the Group in 2005, Wealth International, A.S. Wat International, A.S. Wat HK and Wisdom Come Marketing ceased to operate in 2006. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Wealth International, representing the entire issued share capital of Wealth International, at a consideration of HK\$1.00 on 10 September 2013. The consideration was determined with reference to the net asset value of Wealth International and was fully settled in cash on 10 September 2013.

Disposal of Men 100

Men 100 was incorporated on 11 June 2004 in Hong Kong with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. Men 100 did not have any operation and was inactive during the Track Record Period. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Men 100, representing the entire issued share capital of Men 100, at a consideration of HK\$1.00 on 10 September 2013. The consideration was determined with reference to the net asset value of Men 100 and was fully settled in cash on 10 September 2013.

Disposal of Sky China

Sky China was incorporated in Hong Kong on 28 May 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. Sky China was incorporated to act as the corporate director of certain Hong Kong subsidiaries of the Group prior to the Listing. It did not have any operation and was inactive during the Track Record Period. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical

HISTORY AND DEVELOPMENT

transferred to Xaxon one share of Sky China, representing the entire issued share capital of Sky China, at a consideration of HK\$1.00 on 10 September 2013. The consideration was determined with reference to the net asset value of Sky China and was fully settled in cash on 10 September 2013.

Disposal of Royal Medic Management

Royal Medic Management was incorporated in Hong Kong on 15 January 2007 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. Royal Medic Management did not have any operation and was inactive during the Track Record Period. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Royal Medic Management, representing the entire issued share capital of Royal Medic Management, at a consideration of HK\$1.00 on 10 September 2013. The consideration was determined with reference to the net asset value of Royal Medic Management and was fully settled in cash on 10 September 2013.

Disposal of Wise Medic

Wise Medic was incorporated in Hong Kong on 19 April 2012 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. Wise Medic did not have any operation and was inactive since its incorporation. Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Wise Medic, representing the entire issued share capital of Wise Medic, at a consideration of HK\$1.00 on 11 September 2013. The consideration was determined with reference to the net asset value of Wise Medic and was fully settled in cash on 10 September 2013.

(d) Acquisition of Wisdom Come Medical by Noble State

Pursuant to a sale and purchase agreement dated 12 September 2013 entered into between Noble State as purchaser and Able Island as vendor, Noble State acquired from Able Island 101 shares of Wisdom Come Medical, representing the entire issued share capital of Wisdom Come Medical, at a consideration of HK\$38,551,000 on 12 September 2013, which was fully satisfied by Noble State allotted and issued 10 shares of US\$1.00 each credited as fully paid up in the capital of Noble State to Able Island;

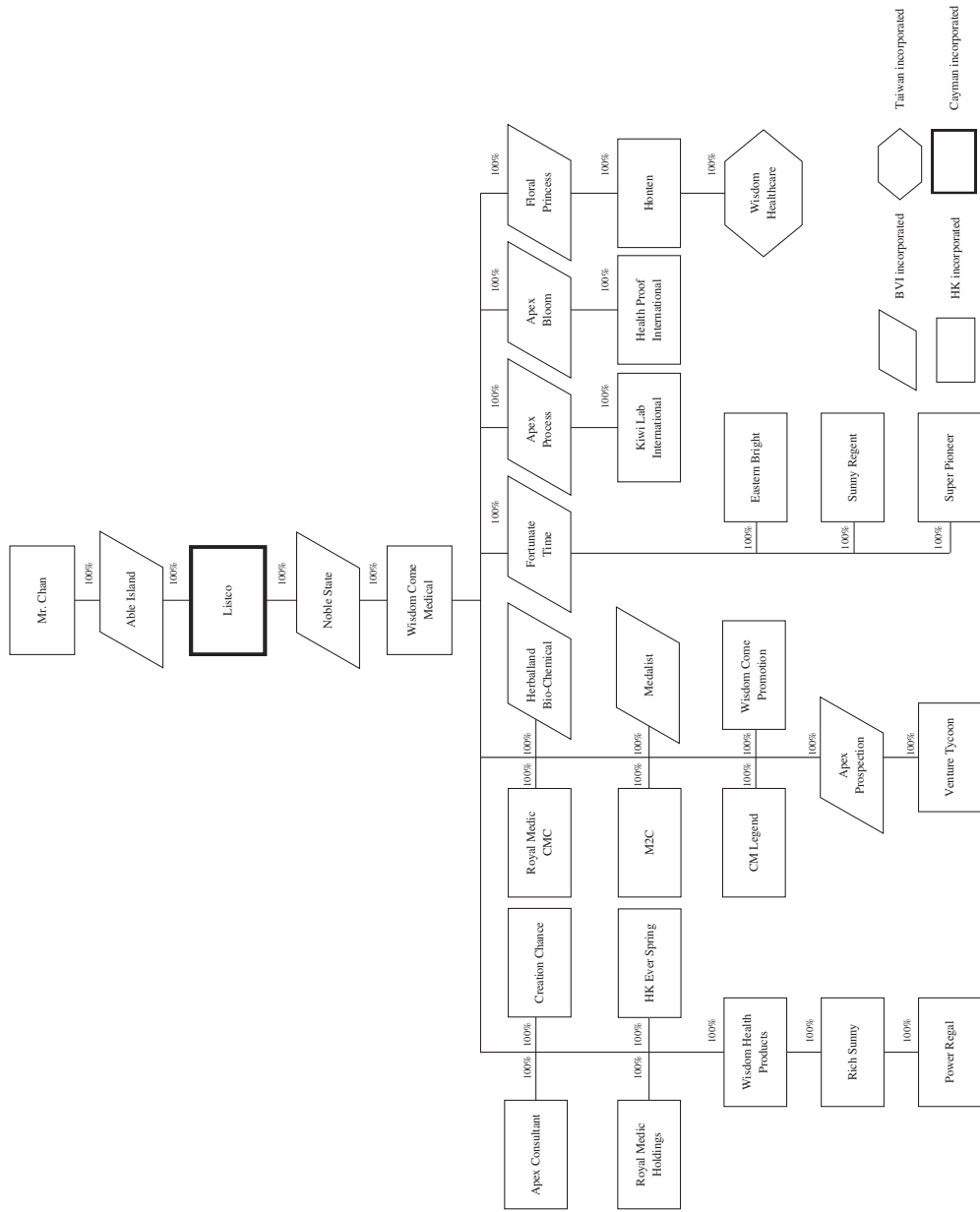
(e) Acquisition of Noble State by the Company

Pursuant to a sale and purchase agreement dated 23 September 2013 entered into between the Company as purchaser and Able Island as vendor, the Company acquired from Able Island 11 shares of Noble State, representing the entire issued share capital of Noble State, at a consideration of HK\$38,551,000 on 23 September 2013, which was fully satisfied by (i) the Company allotted and issued 999,990 Shares credited as fully paid up to Able Island; and (ii) the Company credited as fully paid at par the ten nil paid Shares held by Able Island.

For further details of the Reorganisation, please refer to the paragraph headed “Reorganisation” in the section headed “Appendix V — Statutory and General Information” in this prospectus.

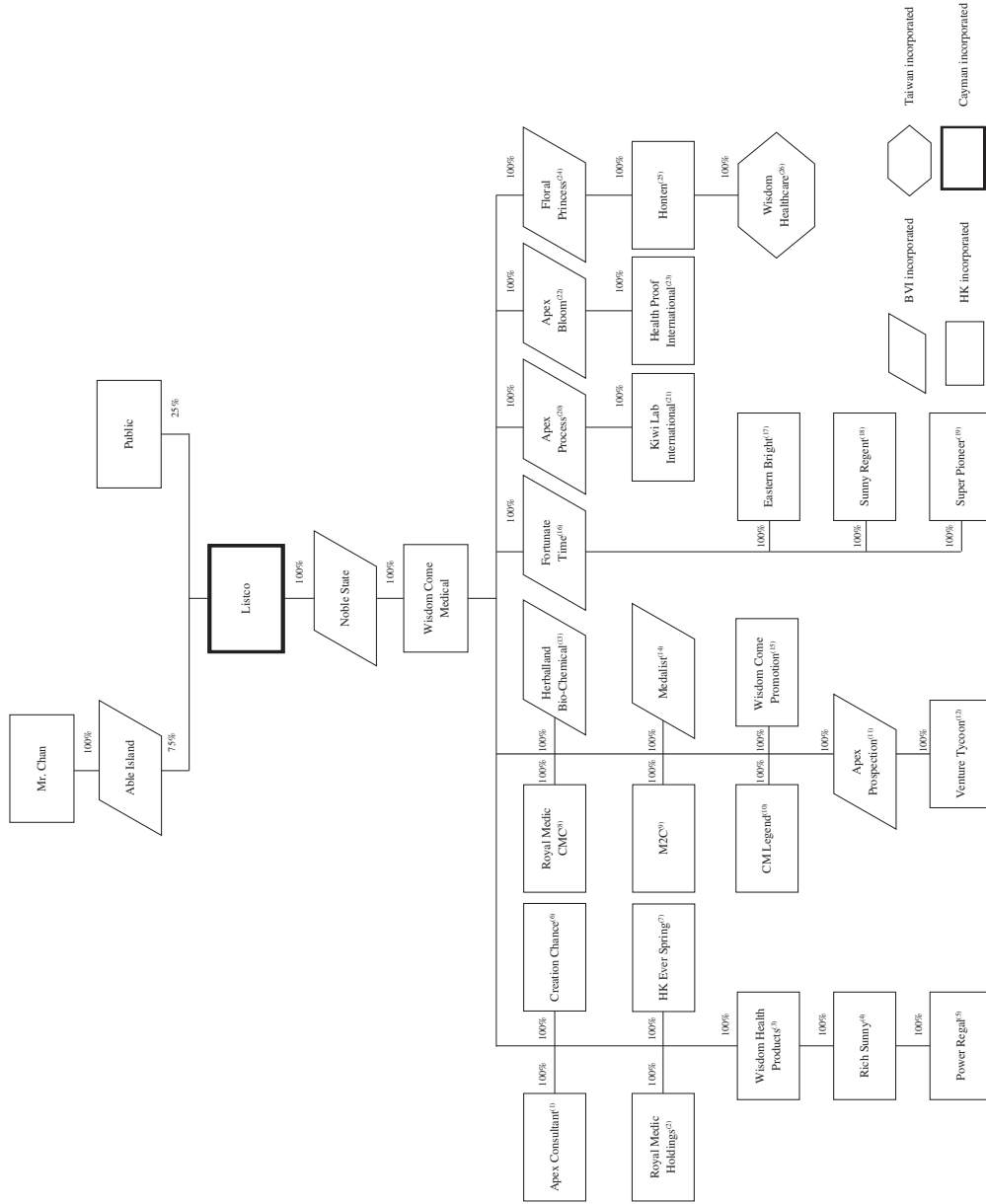
HISTORY AND DEVELOPMENT

The following diagram sets out the shareholdings and corporate structure of the Group after the Reorganisation.



HISTORY AND DEVELOPMENT

The following diagram sets out the shareholdings and corporate structure of the Group after the Reorganisation and upon completion of Placing.



HISTORY AND DEVELOPMENT

Notes:

- (1) Apex Consultant is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong to hold licence for the operation of the Group.
- (2) Royal Medic Holdings is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong to hold licences for the operation of the Group.
- (3) Wisdom Health Products is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong as the trading arm of the business of the Group. It is mainly engaged in trading of health supplements and beauty supplements and products with the Group's distributors and customers. It also holds licences for the operation of the Group.
- (4) Rich Sunny is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong to hold properties for business occupation purposes.
- (5) Power Regal is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong to hold properties of the Group.
- (6) Creation Chance is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong as the operation arm of the business of the Group. It is mainly engaged in purchasing raw materials from suppliers, conducting advertising and promotional activities and performing general administration functions for the Group.
- (7) Hong Kong Ever Spring is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong as the production arm of the business of the Group. It is mainly engaged in purchasing raw materials and outsourcing the Group's production to suppliers and subcontracting manufacturers. It also holds licences for the operation of the Group.
- (8) Royal Medic CMC is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong to set up Royal Medic Chinese Medicine Clinic, which provides traditional Chinese medicine treatments and services to general public customers and engages in trading of the health products.
- (9) M2C is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong and is principally engaged in trading of the Group's products under the proprietary brand of "Herballand".
- (10) CM Legend is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong to trade the Group's products under the proprietary brand of "LEGEND".
- (11) Apex prospecting is an indirect wholly-owned subsidiary of the Company. It was incorporated in BVI to act as the intermediate holding vehicle of the Group's subsidiary.
- (12) Venture Tycoon is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong and is inactive as at the Latest Practicable Date.
- (13) Herballand Bio-Chemical is an indirect wholly-owned subsidiary of the Company. It was incorporated in BVI and is inactive as at the Latest Practicable Date.
- (14) Medalist is an indirect wholly-owned subsidiary of the Company. It was incorporated in BVI to hold trade marks of the Group.
- (15) Wisdom Come Promotion is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong and is principally engaged in promotional activities of the Group.
- (16) Fortunate Time is an indirect wholly-owned subsidiary of the Company. It was incorporated in BVI to act the intermediate holding vehicle of the Group's subsidiaries.
- (17) Eastern Bright is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong and is principally engaged in providing management services to other Group companies.

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- (18) Sunny Regent is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong and is principally engaged in providing management services to other Group companies.
- (19) Super Pioneer is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong and is principally engaged in providing management services to other Group companies.
- (20) Apex Process is an indirect wholly-owned subsidiary of the Company. It was incorporated in BVI to act as the intermediate holding vehicle of the Group's subsidiary.
- (21) Kiwi Lab International is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong and is principally engaged in developing and sourcing health supplements and beauty supplements and products under the private label of the Distribution Facilitator.
- (22) Apex Bloom is an indirect wholly-owned subsidiary of the Company. It was incorporated in BVI to act as the intermediate holding vehicle of the Group's subsidiary.
- (23) Health Proof International is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong and is principally engaged in developing and sourcing health supplements and beauty supplements and products under the private labels of the Distribution Facilitator.
- (24) Floral Princess is an indirect wholly-owned subsidiary of the Company. It was incorporated in BVI to act the intermediate holding vehicle of the Group's subsidiary.
- (25) Honten is an indirect wholly-owned subsidiary of the Company. It was incorporated in Hong Kong to act as the intermediate holding vehicle of the Group's operating subsidiary in Taiwan.
- (26) Wisdom Healthcare is an indirect wholly-owned subsidiary of the Company. It was incorporated in Taiwan to act as the Group's operating subsidiary in Taiwan.

OVERVIEW

The Group is principally engaged in the business of formulation, marketing, sales and distribution of health supplements and beauty supplements and products mainly in Hong Kong. The Group's products are sold under its proprietary brands and the Distribution Facilitator's private label brands. The Group manages both proprietary brands and private label brands products and outsources most of its production to its suppliers and subcontracting manufacturers. The Group distributes its products mainly through the Distribution Facilitator. The Group also operates two Chinese medicine clinics to provide traditional Chinese medicine treatments, services and retailing of health supplements to the general public consumers.

The Group has two segments of products: (i) health supplements, collectively known as nutritional and herbal supplements, refer to any instant of an orally consumed health product intended to supplement the diet and improve inner health/immune system including bones, eyes, heart, liver, etc. (irrespective of their packaging or form) and (ii) beauty supplements and products, which primarily consist of (1) preparations aim to improve body shape/outward appearance; and (2) nutrients which contribute to improvement in skin conditions, such as collagen, antiradicals and coenzymes of which the main functions include skin whitening, anti-oxidation, anti-aging and anti-wrinkle. Under the Group's health supplements segment, its products are further divided into two categories: PCM health supplement and non-PCM health supplement. As at the Latest Practicable Date, the Group sold to and distributed through the Distribution Facilitator 22 health supplements under the Group's proprietary brands including “御藥堂” (Royal Medic) and Herballand and also sold to and distributed through the Distribution Facilitator 36 health supplements under the Distribution Facilitator's private labels, “Health Proof” and “Kiwi Lab”. In addition, the Group sold to and distributed through the Distribution Facilitator 8 beauty supplements and products under its proprietary brands, such as “御藥堂” (Royal Medic) and “La Gusto” and sold to and distributed through the Distribution Facilitator 8 beauty supplements under the Distribution Facilitator's private label brands, namely, “Kiwi Lab” and “Health Proof”, as at the Latest Practicable Date. The Group's top 5 best-selling products for the year ended 31 March 2013 were Royal Medic CS-4, La Gusto Slim Coffee (格斯圖特濃燒脂咖啡), Kiwi Lab Magic Mix (奇異立寶奇妙瘦), Royal Medic Liver Guard (御藥堂淨肝健) and RM Broken Ganoderma Spore.

Royal Medic CS-4 is the best-selling product under the Group's proprietary brand, “御藥堂” (Royal Medic). According to the reports issued by an independent global marketing research firm, Royal Medic CS-4 ranked first in terms of sales value in the Cordyceps market in Hong Kong for five consecutive years ended August 2013. Royal Medic CS-4 is a PCM health supplement comprises solely Chinese herbal medicine ingredients. It is a Cordyceps product, which through the Double-blinded Preliminary Clinical Trial (雙盲初步臨床測試) study conducted by IACM in 2008, among other benefits, proven to be 82% effective in improving insomnia condition. In addition, Royal Medic CS-4 has been awarded and qualified in “A-Mark Quality Chinese Medicine Authentication Certificate” by Hong Kong Chinese Medicine Authentication Centre. According to the industry research conducted by Ipsos in 2013, the Group's brand “御藥堂” (Royal Medic) ranked third in terms of sales value amongst all PCM health supplements sold in Hong Kong in 2012.

Another one of the top selling products of the Group, RM Broken Ganoderma Spore, has also been awarded and qualified in “A-Mark Quality Chinese Medicine Authentication Certificate” by Hong Kong Chinese Medicine Authentication Centre in 2013. In addition, the Group engaged IACM to conduct a preliminary clinical trial on RM Broken Ganoderma Spore. The preliminary clinical trial concluded that

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RM Broken Ganoderma Spore may assist in stabilising blood lipids, blood glucose and cholesterol. Please refer to the paragraphs headed “Collaboration with external research partners” under the sub-section “Product Development and Research” in the “Business” section in this prospectus for further details relating to the preliminary clinical trials. Please also refer to the paragraph headed “Disclaimer” under the sub-section “The Group’s Products and Services” in the “Business” section in this prospectus.

The Group believes that its “御藥堂” (Royal Medic) brand has become a household name of health supplements in Hong Kong.

The majority of the Group’s products are sold and distributed through the Distribution Facilitator’s retail stores, to the general public consumers in Hong Kong. The Group has established its business relationship with the Distribution Facilitator since 2005 by entering into the Trading Terms Agreement. The Distribution Facilitator is one of the largest retail chains of health and beauty products in Hong Kong. As at the Latest Practicable Date, the Distribution Facilitator had approximately 355 stores in Hong Kong and approximately 15 stores in Macau. Leveraging on the extensive retail network of the Distribution Facilitator throughout Hong Kong, the Group is able to target its products at different consumer groups in all districts in Hong Kong.

The Group has collaborated with the Distribution Facilitator to develop and supply private label products to the Distribution Facilitator. The Group has entered into two private label products agreements with the owner of the Distribution Facilitator in 2010 and 2011, respectively, pursuant to which the Group has agreed to develop and supply to the Distribution Facilitator health supplements and beauty supplements and products under the “Kiwi Lab” brand and the “Health Proof” brand. The private label products are sold through the shelves as well as the SDCs at the Distribution Facilitator’s stores to the general public consumers. Please refer to the paragraphs headed “Distribution through shelves in the Distribution Facilitator’s stores” and “Sales at SDCs at the Distribution Facilitator’s stores” under the sub-section headed “Sales and distribution” under the section headed “Business” in this prospectus for details of the respective selling arrangements of the private label products. The arrangements for the private label products are the same as the Group’s proprietary brands products under the Trading Terms Agreement.

In addition, as at the Latest Practicable Date, the Group has set up 27 SDCs in selected stores of the Distribution Facilitator and a promoter who is an employee of the Group is assigned to each SDC to sell and promote the Group’s products. Apart from the major sales channel through shelves and SDCs at the Distribution Facilitator’s stores, the Group also sells its products through (i) fairs and exhibitions in Hong Kong, such as the annual Hong Kong Brands and Products Expo (工展會); (ii) direct sales via the Group’s membership club, the Wisdom Club; (iii) the Royal Medic Chinese Medicine Clinics; and (iv) to other customers¹ for some of the Group’s health supplements and beauty supplements and products.

In 2006, the Group set up its first Royal Medic Chinese Medicine Clinic (御藥堂中醫中藥坊) with an aim to provide professional medical advice on its health supplements products and comprehensive medical services to general public consumers. The Group currently has one flagship Royal Medic

¹ Other customers of the Group are (i) convenient stores; (ii) Chinese medicine practitioners; and (iii) beauty salons. The Group provides its proprietary brands health supplements and beauty supplements to these wholesale customers. The Group offers credit terms of up to 120 days.

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Chinese Medicine Clinic set up in the store of the Distribution Facilitator located at Taikoo Place, Quarry Bay and the Group has set up another clinic in 2012, in the store of the Distribution Facilitator located at Sino Cheer Plaza, Jordan.

The Group achieved revenue growth during the Track Record Period. The Group's revenues for the two years ended 31 March 2013 were approximately HK\$158.8 million and HK\$163.8 million, respectively. The Group's net profits during the corresponding years were approximately HK\$43.0 million and HK\$39.3 million, respectively.

COMPETITIVE STRENGTHS

Strong position to capture the growing health supplements and beauty supplements and products markets in Hong Kong

According to the reports issued by an independent global marketing research firm, the Group's best selling product, Royal Medic CS-4, ranked first, in terms of sales value in the Cordyceps market in Hong Kong for the five consecutive years ended August 2013.

The Group operates in a steadily growing health supplements and beauty supplements and products market. According to the Ipsos Report, it is expected that the total retail sales value of health supplements in Hong Kong will increase from approximately HK\$3,959 million in 2013 to HK\$4,242 million in 2015, and the total retail sales value of beauty supplements and products in Hong Kong will increase from approximately HK\$1,336 million in 2013 to HK\$1,420 million in 2015.

The Group believes that, being one of the leading brands in the PCM health supplements market in Hong Kong, it will benefit from the growing market. In addition, the Group's outstanding product quality and high level of brand awareness will enable it to distinguish its products from its competitors' products and maintain its competitive advantage to capitalise on the growing opportunities offered in the market.

Market-oriented product development strategy and ability to respond swiftly to market trends and demands

The Group has set up a product development committee to develop and evaluate new products. The product development committee meets on a regular basis for the purpose of development and evaluation of new products by means of discussing marketing strategies, selling points, ingredients, formulations, licensing, packaging and compliance issues.

The Group believes that its long-term success and growth will largely depend on its ability to improve its existing products and develop new products that meet the demands of the general public consumers. The Group also believes that its product development committee has a strong vision of future market demand and is able to identify consumer demand and thereby develop new markets or products that are in line with the market demands and trends. During the two years ended 31 March 2013, the Group has launched 60 new products in total. The revenues generated by the newly launched products for each year up to the respective year end were approximately HK\$29.6 million and HK\$22.3 million, representing approximately 18.6% and 13.6% of the Group's total revenue for the two years ended 31 March 2013, respectively.

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La Gusto Slim Coffee (格斯圖特濃消脂咖啡) is a good example of the strong vision of the Group's product development committee; the product development committee conceptualised and developed La Gusto Slim Coffee and it has subsequently become one of the Group's best selling products. During the two years ended 31 March 2013, La Gusto Slim Coffee had generated sales of approximately HK\$10.1 million and HK\$11.9 million, respectively, representing approximately 6.4% and 7.3% of the Group's total sales during the corresponding years.

In addition to its superior market foresight, the Group is experienced in formulating tailored marketing and promotion plans.

Strategic brand positioning and strong brand recognition

The Group's "御藥堂" (Royal Medic) brand is one of the leading brands of PCM health supplements in Hong Kong. The Group believes that its success in brand-building is mainly attributable to the outstanding quality of its products recognised by the general public consumers and the continuing efforts it put into marketing and promotions.

The Group believes that its consistently high product quality and commitment to providing superior customer services have enabled it to establish its "御藥堂" (Royal Medic) brand as a reputable specialty brand in Hong Kong. The Group has received various awards from the Chinese Manufacturers' Association of Hong Kong, the Hong Kong Brand Development Council and the Distribution Facilitator in recognition of the Group's achievements in product quality and success in brand building. In order to further enhance the awareness of the Group's products among consumers, the Group advertises and promotes its products through various media and channels and has engaged well-known artistes in Hong Kong, such as Ms. Michelle Yim Wai Ling (米雪) and Mr. Michael Miu Kiu Wai (苗僑偉), as the Group's brand ambassadors for promoting its various products. The Group's advertisements have been televised on a major domestic television channel, Television Broadcasts Limited ("TVB"), since 2008 and published in various newspapers and magazines in Hong Kong as well as on MTR station billboards.

Through the Group's extensive advertising and engagement of famous artistes as the Group's brand ambassadors, the Group believes that it has effectively and quickly gained recognition and high level of awareness of its brands in Hong Kong. The Group also believes that this effective advertising and promotion strategy has a positive and long-lasting effect to the public and is able to further reinforce its brand image and recognition among the general public consumers, which in turn will facilitate the marketing and promote the sales of its existing and new products in the future.

The Group believes that the success of its best-selling product, Royal Medic CS-4, is also attributable to, among others, its successful marketing and promotion strategy, which includes intensive media and outdoor advertising and regular promotional activities carried out with the Distribution Facilitator.

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Direct promotion of the Group's products to the general public consumers

The Group recognises the effectiveness of having sales promoters to promote its products. As at the Latest Practicable Date, the Group has employed and maintained a team of 77 well-trained sales promoters who are stationed at selected stores of the Distribution Facilitator to promote the Group's products. The Group's sales promoters promote the Group's products, provide customer services and receive instant feedback from customers visiting the Distribution Facilitator's stores. The Group believes that face-to-face promotion effectively enhances the Group's sales figures and feedback received from the general public consumers will be fed to the Group's product development committee for market research purposes.

Experienced and dedicated management team

The Group believes that its management team's experience, knowledge and vision in the health supplements and beauty supplements and products markets have enabled the Group to achieve growth during the Track Record Period. Most of the Group's key executives and senior management have 8 to 15 years of experience in the health supplements and beauty supplements and products business and possess relevant management and financial experience and industry knowledge. Benefiting from the extensive experience and knowledge of the Group's management team, the Group believes that its management team is able to adopt appropriate production, marketing and sales strategies to accommodate the changing market environment, and possess the vision required to anticipate changes in the general public consumer preference, market trends and develop new products to ensure the Group's future growth.

THE GROUP'S PRODUCTS AND SERVICES

The Group has two product segments: (i) health supplements; and (ii) beauty supplements and products. Health supplement is collectively known as nutritional and herbal supplement, referred to any instant of an orally consumed health product intended to supplement the diet and improve inner health/immune system including bones, eye, heart, liver, etc. (irrespective of their packaging or form). Health supplements mainly consist of: (i) proprietary Chinese medicine ("PCM") health supplements, which are composed of Chinese medicines as prescribed under the relevant laws and regulations of Hong Kong; and (ii) non-proprietary Chinese medicine ("non-PCM") health supplements, which includes health supplements other than PCM health supplements that contain traditional Chinese herbal extracts, vitamins, mineral and fish oil health supplements, and other health supplements including herbal/traditional health supplements such as St John's Wort, non-herbal traditional health supplements such as Co-Enzyme Q10, Calcium supplements, etc. targeting at different human organs or health issues. Beauty supplements and products primarily consist of: (i) preparations aim to improve body shape/outward appearance; and (ii) nutrients which contribute to improvement in skin condition such as collagen, anti-radicals and coenzymes of which the main functions include skin whitening, anti-oxidation, anti-aging and anti-wrinkle.

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Products

As at the Latest Practicable Date, the Group sold and distributed 22 health supplements and 8 beauty supplements and products under its proprietary brands. The Group also sold and distributed 36 health supplements and 8 beauty supplements and products under the Distribution Facilitator's private label brands, namely, "Kiwi Lab" and "Health Proof". As at the Latest Practicable Date, the Group only sold one PCM product as defined under the Chinese Medicine Ordinance, namely, Royal Medic CS-4. All of the Group's other orally consumed products are not required to be registered under the Chinese Medicine Ordinance or the Pharmacy and Poisons Ordinance (Chapter 138, the Laws of Hong Kong). The following table sets out the brand names, number of products and their product development methods:

Type of Products & Brands	Number of products	Development method ⁽¹⁾	Retail price range HK\$
Health Supplements			
— Proprietary brands			
Royal Medic (御藥堂)	17	<i>Group's, Modified and Suppliers'</i>	69–2,995
Herballand	3	<i>Modified</i>	393–483
Haruka	1	<i>Suppliers'</i>	499
Mr. 75	1	<i>Modified</i>	299
Total	22		
— Private label brands			
Health Proof	35	<i>Group's, Modified and Suppliers'</i>	148–2,688
Kiwi Lab	1	<i>Modified</i>	30
Total	36		
Beauty Supplements and Products			
— Proprietary brands			
La Gusto	2	<i>Modified</i>	128–218
Royal Medic (御藥堂)	1	<i>Group's</i>	239
Herballand	1	<i>Group's</i>	139
Papaya Slim	1	<i>Modified</i>	368
Dissolution	1	<i>Modified</i>	268
Melty Enz	1	<i>Modified</i>	268
Dr. S	1	<i>Modified</i>	158
Total	8		
— Private label brands			
Kiwi Lab	4	<i>Modified</i>	220–258
Health Proof	4	<i>Suppliers', Modified</i>	268–1,600
Total	8		
Grand total	74		

Note (1): *Suppliers'* — Suppliers' existing formulation

Modified — Supplier formulation with the Group's modification

Group's — The Group's own formulation

Please refer to the section headed "Business — Product development and research".

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The following table sets out the breakdown of the Group's total revenue by product segments for the two years ended 31 March 2013:

	For the year ended 31 March			
	2012		2013	
	Revenue <i>HK\$'000</i>	% of Total Revenue	Revenue <i>HK\$'000</i>	% of Total Revenue
Health supplements				
Proprietary brands	105,667	66.5%	105,168	64.2%
Private label brands	<u>3,802</u>	<u>2.4%</u>	<u>14,914</u>	<u>9.1%</u>
	<u>109,469</u>	<u>68.9%</u>	<u>120,082</u>	<u>73.3%</u>
Beauty supplements and products				
Proprietary brands	30,256	19.1%	27,203	16.6%
Private label brands	<u>18,528</u>	<u>11.7%</u>	<u>15,637</u>	<u>9.6%</u>
	<u>48,784</u>	<u>30.8%</u>	<u>42,840</u>	<u>26.2%</u>
Others				
Others	<u>540</u>	<u>0.3%</u>	<u>845</u>	<u>0.5%</u>
Total	<u><u>158,793</u></u>	<u><u>100.0%</u></u>	<u><u>163,767</u></u>	<u><u>100%</u></u>

For the two years ended 31 March 2013, the total revenue of the Group were approximately HK\$158.8 million and HK\$163.8 million, respectively.

For the two years ended 31 March 2013, health supplements contributed to approximately 68.9% and 73.3% of the total revenue of the Group, respectively. During the same years, beauty supplements and products contributed to approximately 30.8% and 26.2% of the Group's total revenue, respectively.

The Group's top 5 best-selling products for the year ended 31 March 2013 were Royal Medic CS-4, La Gusto Slim Coffee (格斯圖特濃燒脂咖啡), Kiwi Lab Magic Mix (奇異立寶奇妙瘦), RM Broken Ganoderma Spore and Royal Medic Liver Guard (御藥堂淨肝健).

Royal Medic CS-4



Royal Medic CS-4 is a proprietary brand PCM health supplement launched in 2008. This product contains fermented Cordyceps CS-4 powder and is presented in capsule form. *Cordyceps sinensis*, also known as ‘Dong Chong Xia Cao’ (冬蟲夏草), is a highly valued Chinese medicinal herb. It is a complex of a larva of one particular species of moth, *Hepialus armoricanus* (蟲草蝙蝠蛾), and a parasitic fungus, *Cordyceps sinensis* (Berk.) Sacc. *Cordyceps sinensis* is distinguished from other types of Cordyceps (蟲草), such as *Cordyceps militaris* (蛹蟲草) and *Cordyceps ophioglossoides* (大團囊蟲草), which are formed by different species of insect larvae.

Since wild *Cordyceps sinensis* is rare and expensive, scientists have attempted to artificially cultivate the herb. However, commercial production has not been achieved due to high cost of production and low stability of the product. Instead, a substitute was developed using CS-4, a fungal strain (菌種) isolated from natural *Cordyceps sinensis*. The mycelium (菌絲體) (tubular filament like structure that make up the vegetative portion of the fungus) of this fungal strain was cultured by fermentation (發酵), in which the fungi were grown in a tank of nutritious liquid medium under specific culture conditions for a period of time. The chemical composition, toxicity and therapeutic functions of this fermented product were determined by extensive scientific researches and clinical trials.

Royal Medic CS-4 aims to improve the health of the lungs and the liver, enhance the immune system and improve sleep quality. Royal Medic CS-4 was the Group’s best-selling product throughout the Track Record Period. For the two years ended 31 March 2013, the sales of Royal Medic CS-4 generated revenue of approximately HK\$60.6 million and HK\$57.1 million, respectively, representing approximately 38.2% and 34.9%, respectively, of the Group’s revenue during the same years.

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La Gusto Slim Coffee (格斯圖特濃燒脂咖啡)



La Gusto Slim Coffee is a proprietary brand beauty supplement launched in 2010. This product primarily contains coffee powder, tea polyphenol (an antioxidant), Garcinia Cambogia (an appetite suppressant) and L-Carnitine (an amino acid) and is presented in sachet form. La Gusto Slim Coffee aims to help the general public consumers to control weight.

La Gusto Slim Coffee was the Group's second best-selling product for the year ended 31 March 2013. For the two years ended 31 March 2013, the sales of La Gusto Slim Coffee generated revenue of approximately HK\$10.1 million and HK\$11.9 million, respectively, representing approximately 6.4% and 7.3%, respectively, of the Group's revenue during the same years.

Kiwi Lab Magic Mix (奇異立寶奇妙瘦)



Kiwi Lab Magic Mix is a private label beauty supplement launched during the year ended 31 March 2013. This is a slimming product which primarily contains dietary fiber and other natural ingredients and is presented in sachet form. Kiwi Lab Magic Mix is a colorless, tasteless and odorless slimming sachet, which can be added into beverages without affecting the flavour of the beverages. It aims to help the general public consumers to control weight.

Kiwi Lab Magic Mix was the third best-selling product for the year ended 31 March 2013, which generated revenue of approximately HK\$8.8 million, representing approximately 5.4% of the Group's revenue for the year concerned.

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Royal Medic Liver Guard (御藥堂淨肝健)



Royal Medic Liver Guard is a proprietary brand health supplement launched in 2009. This product primarily contains L-Cysteine (an amino acid), bee pollen, aloe vera and yeast powder and is presented in blister packs. Royal Medic Liver Guard aims to strengthen the liver, eliminate toxicant and reduce hair loss.

Royal Medic Liver Guard was the fourth best-selling product for the year ended 31 March 2013. For the two years ended 31 March 2013, the sales of Royal Medic Liver Guard generated revenue of approximately HK\$6.4 million and HK\$7.3 million, respectively, representing approximately 4.0% and 4.5%, respectively, of the Group's revenue during the same years.

RM Broken Ganoderma Spore



RM Broken Ganoderma Spore is a proprietary brand health supplement launched in 2005. This product primarily contains broken Red Ganoderma Spore (fungus spores) and Agaricus Blazei Murill (a fungus) and is presented in capsule form. RM Broken Ganoderma Spore aims to improve immunity and reduce the adverse effects from therapy and is anti-aging.

RM Broken Ganoderma Spore was the fifth best-selling product for the year ended 31 March 2013. For the two years ended 31 March 2013, the sales of RM Broken Ganoderma Spore generated revenue of approximately HK\$9.3 million and HK\$7.3 million, respectively, representing approximately 5.9% and 4.5%, respectively, of the Group's revenue during the same years.

Please refer to the section headed "Business — Awards and honours" for the awards and accreditation of the above products.

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The following table sets out the ingredients/contents and origins of raw materials of the top five best-selling health supplements and beauty supplements and products for the year ended 31 March 2013.

Top five health supplements for the year ended 31 March 2013:

	Product Name	Origin	Ingredient (per packaging)
1	Royal Medic CS-4 (60's)	Raw Material made in China, Manufactured in Hong Kong	Ingredients: Fermentation Cordyceps CS-4 Powder (100%)
2	RM Broken Gandoerma Spore (60's)	Raw Material made in China, Manufactured in Hong Kong	Ingredients: Broken red Ganoderma Spores (90%) and Agaricus Blazei Murill (10%)
3	Liver Guard (60's)	New Zealand	Contents: Cellulose (36.08%), L-Cysteine (24.74%), Aloe Vera (9.28%), Marine Collagen Powder (8.25%), Yeast Powder (8.25%), Bee Pollen Powder (8.25%), Magnesium Stearate (3.09%), Silica (2.06%)
4	Prostate Care (60's)	New Zealand	Contents: Saw Palmetto (37.78%), Tomato Extract (26.67%), Pumpkin Seed (17.78%), Cellulose (14.44%), Magnesium Stearate (2.22%), Colloidal Silicon (1.11%)
5	Joints Well Extra (60's)	New Zealand	Contents: Methylsulfonylmethane (MSM) (58%), Marine Mussel Essence (19%), Marine Collagen Powder (14%), Chondroitin Sulfate (5%), Magnesium Stearate (3%), Silica Colloidal (1%)

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Top five beauty supplements and products for the year ended 31 March 2013:

Product Name	Origin	Ingredient (per packaging)
1 La Gusto Slim Coffee (7's)	Malaysia	<p>Ingredients:</p> <p>Coffee Powder (24%), Non Dairy Creamer (17%), Green Coffee Powder (14%), Fructose (10%), Tea Polyphenol (8%), Hazelnut (5%), Garcinia Cambogia (5%), White Kidney Bean (5%), L-Carnitine (5%), Digestive Enzyme (4%), Guar Gum (3%)</p>
2 Magic Mix (14's)	Malaysia	<p>Ingredients:</p> <p>Wheat Dextrin (23.0%), Soluble Fiber (20.0%), Maltodextrin (18.0%), Inulin (15.0%), Aloe Vera (6.0%), Green Tea Extract (6.0%), Garcinia Cambogia (6.0%), Hoodia Gordonii (6.0%)</p>
3 Papaya Slim (72's)	New Zealand	<p>Contents:</p> <p>Papaya Fruit Extract (26.00%), Garcinia Cambogia (26.00%), Soya Oil (25.00%), Aloe Vera (16.00%), Beeswax (3.00%), Vegetable Oil-Hydrogenated (3.00%), Lecithin Liquid (1.00%) Empty Capsule: Gelatin (61.60%), Glycerol (27.60%), Water (10.00%), Color (171, 110, 129) (0.80%)</p>
4 Gold Kiwi Slim (60's)	New Zealand	<p>Ingredients:</p> <p>Red, Green and Golden Kiwi Fruit Extracts (35.80%), White Kidney Bean Extract (23.87%), Caralluma Fimbriata Herb PE 10:1 (19.09%), Cardamom PE 10:1 (11.94%), Cayenne Fruit PE 10:1 (1.19%) Excipients: Cellulose-Microcrystalline 102 (4.53%), Magnesium Stearate (2.39%), Silica-Colloidal Anhydrous (1.19%)</p>
5 L-Slim 24 (60's)	Taiwan	<p>Ingredients:</p> <p>Wheat Germ Oil (67.67%), L-Carnitine (19.71%), Bilberry Extract (10.68%), Glycerin Fatty Acid Ester (1.94%)</p>

Disclaimer

Save for Royal Medic CS-4, none of the Group's products is registered under the Pharmacy and Poison Ordinance (Chapter 138, the Laws of Hong Kong) and the Chinese Medicine Ordinance. Any claim made for those products has not been subject to evaluation for such registration. Those products are not intended to diagnose, treat or prevent any disease.

Product life-cycle

The Group had 60 health supplements available in the market as at 31 March 2013, such products were launched between 1 and 91 months ago. RM Broken Ganoderma Spore, the Group's longest selling health supplements, was launched in 2005 and contributed to approximately HK\$9.3 million and HK\$7.3 million or approximately 5.9% and 4.5%, of the total revenue of the Group for the two years ended 31 March 2013, respectively.

The Group had 19 beauty supplements and products available in the market as at 31 March 2013, such products were launched between 6 and 44 months ago. Royal Medic Liver Whitening (御藥堂白滑美肌錠), the Group's longest selling beauty supplement, was launched in 2009 and contributed to approximately HK\$1.8 million and HK\$2.2 million, or approximately 1.1% and 1.3%, of the total revenue of the Group for the two years ended 31 March 2013, respectively.

As at the Latest Practicable Date, the Group has 58 health supplements and 16 beauty supplements and products being sold in the market. These products have been sold in the market ranging from 1 month to 97 months. For the year ended 31 March 2013, the best selling health supplement and beauty supplement and product are Royal Medic CS-4 and La Gusto Slim Coffee, respectively. The Group's longest selling product is RM Broken Ganoderma Spore.

As at the Latest Practicable Date, Royal Medic CS-4, La Gusto Slim Coffee and RM Broken Ganoderma Spore have been in the market for 63 months, 39 months and 97 months, respectively.

For the year ended 31 March 2013, Royal Medic CS-4, La Gusto Slim Coffee and RM Broken Ganoderma Spore generated revenue of HK\$57.1 million, HK\$11.9 million and HK\$7.3 million, respectively, representing 34.9%, 7.3% and 4.5% of the Group's total revenue.

Shelf life

The shelf life of the Group's finished products, which is determined based on dates specified by suppliers, is generally between 2 to 3 years.

Services

In 2006, the Group set up the first Royal Medic Chinese Medicine Clinic (御藥堂中醫中藥坊) to provide traditional Chinese medicine treatments services (including Chinese medicine diagnosis, acupuncture, bone-setting and prescriptions) and retailing of health supplements to the general public consumers. Currently, the Group operates two Royal Medic Chinese Medicine Clinics located in the Distribution Facilitator's stores at Taikoo Place, Quarry Bay and Sino Cheer Plaza, Jordan.

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The Group employs two registered Chinese medicine practitioners and three Chinese medicine dispensers at its two Chinese medicine clinics. The Group's chief production officer is responsible for (1) monitoring overall operation of the Chinese medicine clinics; (2) ensuring the capabilities of the employees conforming to standards; (3) monitoring the hygienic conditions of the clinics. The Chinese medicine practitioners are the responsible persons of the relevant clinics where they are stationed, and they will report to the Group's chief production officer everyday in respect of the daily operations.

The Group also maintains malpractice liability insurance for services offered at the Royal Medic Chinese Medicine Clinics and since the date of the operation of the clinics, the Group has not received any claim concerning the products or services offered at the Royal Medic Chinese Medicine Clinics nor made any insurance claim.

The revenue of the clinics is primarily derived from services provided by the Chinese medicine practitioners. The revenue generated from the Royal Medic Chinese Medicine Clinic amounted to approximately HK\$0.5 million and HK\$0.7 million, respectively for the two years ended 31 March 2013, representing approximately 0.3% and 0.4% of the Group's total revenue.

PRODUCT DEVELOPMENT AND RESEARCH

Product Development

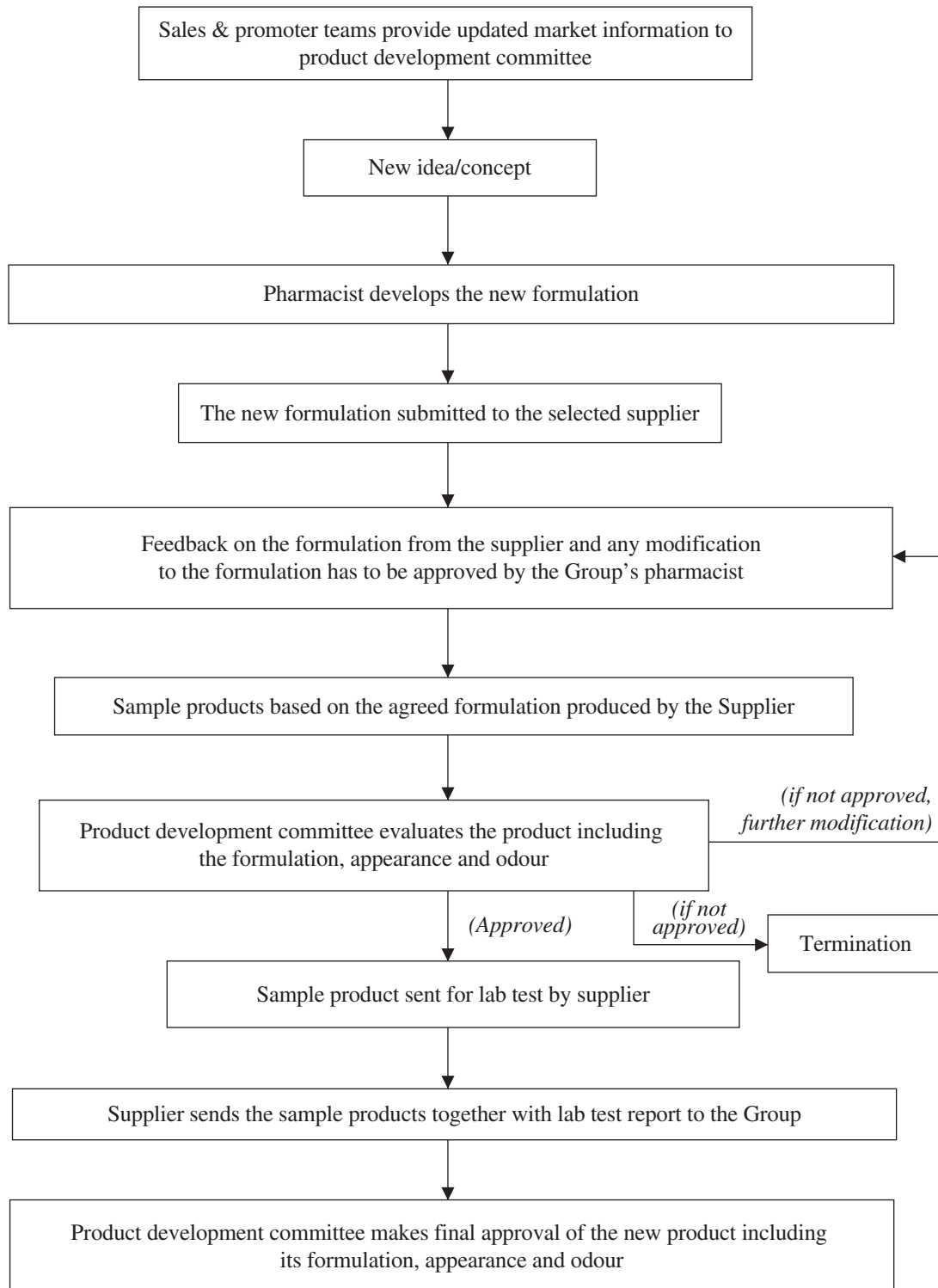
The Group has set up a product development committee to develop and evaluate new products. The product development committee is composed of executives covering the functions of finance, sales, marketing, licensing, formulation, raw material sourcing, packaging and regulatory compliance, namely, the chief executive officer, the chief production officer, the chief financial officer, marketing controller and the sale controller of the Group. The chief executive officer and the sale controller have been involved in the product development process of the Group for several years and the remaining members have taken part in this process since joining the Group. The details of the qualifications and experience of the product development committee are set out in the section headed "Directors, senior management and staff". The committee meets on a regular basis to develop and evaluate new products by means of discussing marketing strategies, selling points, ingredients, formulations, licensing, packaging and compliance issues.

The Group develops its new products in one of the following manners:

(a) The Group's own formulation (time to market: approximately 3–4 months)

(i) Based on the Group's market research and analyses, the chief production officer (who is also a pharmacist) will carry out literature search to identify suitable ingredients and create a draft formulation; (ii) the product development committee would source and select a suitable supplier; (iii) the chief production officer would work with the manufacturer to modify the draft formulation taking into technical and manufacturing considerations to arrive at a final formulation; (iv) the Group's product development committee will evaluate the sample products including its formulation and modifications may be made where necessary; (v) thereafter, the supplier will send the sample products for lab testing; and (vi) the Group's product development committee will evaluate the new products and decide whether to approve and launch the new products.

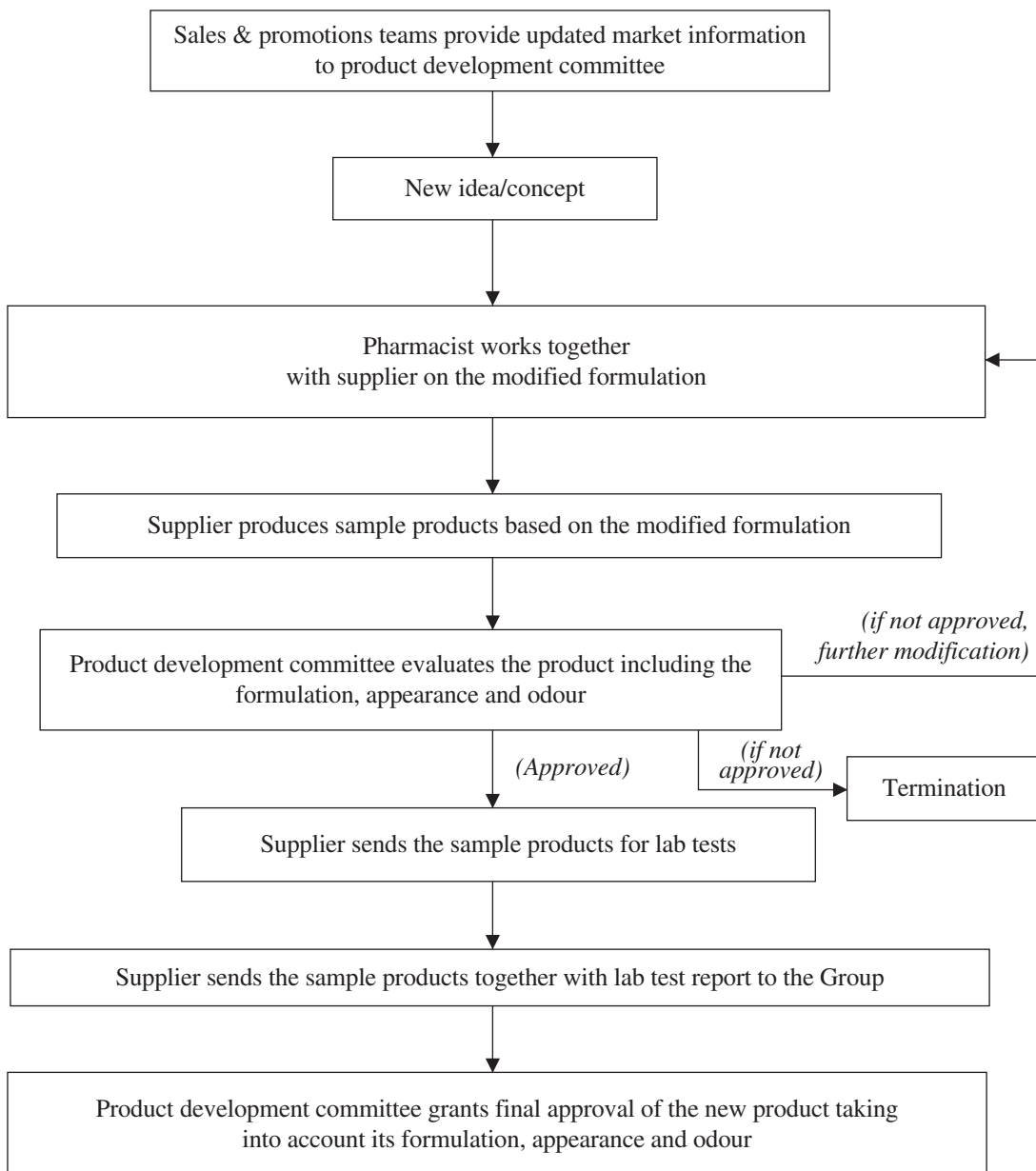
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(b) *Suppliers' formulation with the Group's modification (time to market: approximately 3 months)*

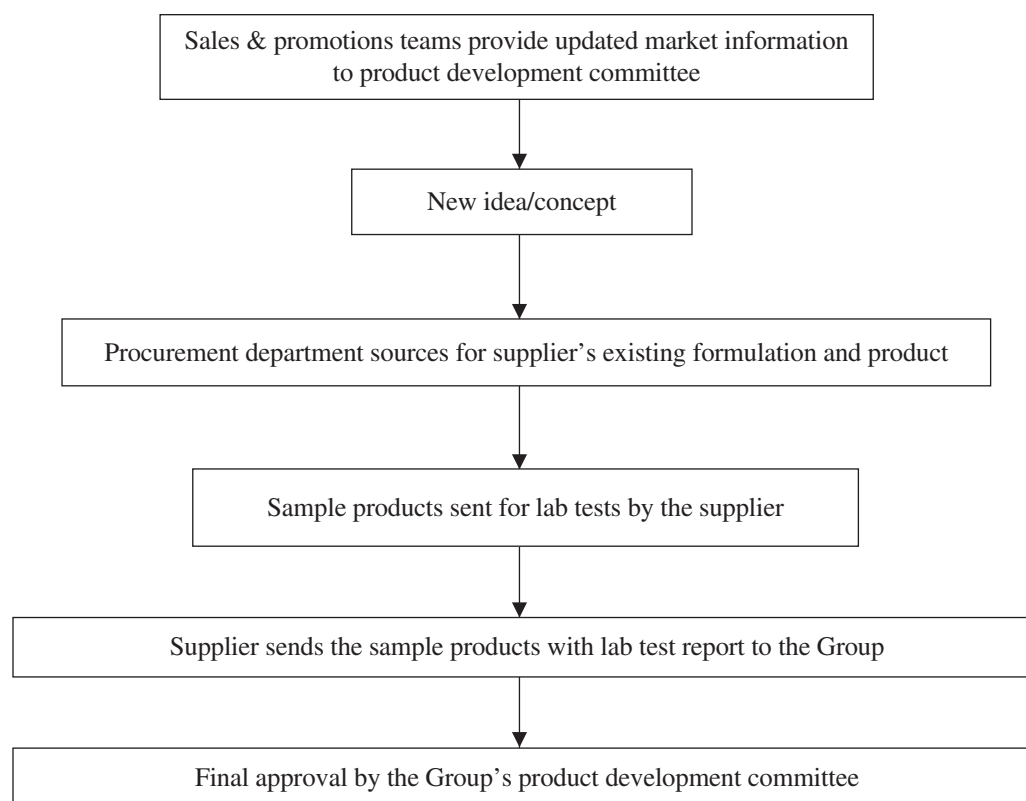
(i) Based on the Group's market research and analyses, the product development committee and the chief production officer would source suppliers with suitable formulations for modification; (ii) the chief production officer would work with the supplier to modify the supplier's formulation taking into technical and manufacturing considerations to arrive at a final formulation and the product development committee will make preliminary evaluation on the products including their formulation, appearance and odour; (iii) the supplier may make necessary modification according to the Group's product development committee's comments and produce samples of the products for lab testing; and (iv) the Group's product development committee will evaluate the new products and decide whether to approve and launch the new products.



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(c) *Suppliers' existing formulation* (time to market: approximately 1 month)

(i) Based on the idea and analyses drawn up by the Group's product development committee, the Group's procurement department will source products from its suppliers with existing formulations, which meet the product development committee's specifications; (ii) the supplier will send the sample products for lab tests; and (iii) the Group's product development committee will evaluate the new products and decide whether to approve and launch the new products.



The table below provides a breakdown of the Group's revenue attributable to the Group's own formulation, supplier formulations with the Group's modification and suppliers' existing formulations.

	For the years ended 31 March			
	2012		2013	
	Revenue	% of revenue	Revenue	% of revenue
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
The Group's own formulations	12,711	8.0%	16,453	10.1%
Supplier formulations with the Group's modification	142,018	89.5%	129,381	79.0%
Suppliers' existing formulations	3,524	2.2%	17,088	10.4%
	158,253	99.7%	162,922	99.5%
Others	540	0.3%	845	0.5%
	158,793	100.0%	163,767	100.0%

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As at the Latest Practicable Date, the Group has launched approximately 100 products since the Group was founded in 2002. Ideas and concepts of the new products are generated by the sales-controller and marketing-controller based on information captured during interactions with the general public consumers and observation of the market trends.

Of the Group's top 5 best selling products for the year ended 31 March 2013, Royal Medic Liver Guard was developed based on the Group's own formulation; Royal Medic CS-4, RM Broken Ganoderma Spore, La Gusto Slim Coffee and Kiwi Lab Magic Mix were developed based on the suppliers' formulation with the Group's modifications. None of the Group's top 5 selling products falls into the suppliers' existing formulation category.

Though the Group does not have a typical scheduled time frame for its product development process as it varies from product to product, it generally takes around one to four months depending on the manner of formulation of the new product. However, the aforesaid estimated time frame does not include the time for registration of the product, if necessary. For example, a PCM product is required to be registered in accordance with the Chinese Medicine Ordinance. The registration duration will depend on the classification of the PCM product. Please refer to the paragraphs headed "Chinese Medicine Ordinance" under the section headed "The Laws and Regulations relating to the Industry" in this prospectus for further details.

For the two years ended 31 March 2013, the Group's product development expenses were approximately HK\$0.8 million and HK\$2.1 million, respectively, representing approximately 1.8% and 4.5% of the total administrative expenses for the corresponding years, respectively.

Collaboration with external research partners

While the Group does not carry out any academic or scientific research on its products, it collaborates with Independent Third Party research institutions and universities, which are experienced in conducting Chinese medicine research and preliminary clinical trials.

The Group engaged IACM in 2008 to conduct the "Double-blinded Preliminary Clinical Trial" (雙盲初步臨床測試) on the Royal Medic CS-4. According to the IACM's report, the preliminary clinical trial targeted at a group of 40 adults who suffered from insomnia for more than 3 months. The participants were randomly divided into two groups: 22 participants were given Royal Medic CS-4 whereas the remaining 18 participants were given placebo, to be taken twice a day and two capsules each time for a period of 6 weeks. None of the participants was informed whether they were given a placebo or Royal Medic CS-4. Based on the findings of the preliminary clinical trial, IACM concluded that Royal Medic CS-4 has effectively improved insomnia condition in 82% of the participants.

In 2013, the Group engaged IACM to conduct a preliminary clinical trial on another top selling product of the Group, RM Broken Ganoderma Spore. According to IACM's report, the preliminary clinical trial targeted at a group of 57 middle-age adults who had not suffered from any heart disease or cerebrovascular disease. The participants were randomly divided into two groups: 28 participants were given RM Ganoderma Spore whereas the remaining 29 participants were given placebo, to be taken three times a day and two capsules each time for a period of 12 weeks. None of the participants was informed whether they were given a placebo or RM Ganoderma Spore. Based on the findings of the preliminary clinical trial, IACM concluded that RM Broken Ganoderma Spore may assist in stabilising blood lipids, blood glucose and cholesterol. IACM staff who directly interact with the preliminary

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clinical trial subjects are not informed of whether the subjects are given the placebo or the Group's product. Please also refer to the paragraph headed "Disclaimer" under the sub-section "The Group's Products and Services" in the "Business" section in this prospectus.

In addition, Royal Medic CS-4 and RM Broken Ganoderma have been awarded and qualified in "A-Mark Quality Chinese Medicine Authentication Certificate" by Hong Kong Chinese Medicine Authentication Centre since 2008 and 2013, respectively.

In March 2012, the Group entered into a cooperation agreement in relation to a research project with the Southern Taiwan University of Science and Technology ("STUST") and one of the Group's suppliers based in Taiwan. Professor Chang Chun-Sheng, Director of Research Center of Biotechnology of STUST ("Professor Chang"), has been appointed as project manager to oversee the research project. According to the agreement, the Group will make a one-off payment of NT\$240,000 (approximately HK\$60,000) to STUST. In the event that the Group is in the breach, which leads to the termination of the agreement, the one-off payment will not be refunded. The one-off payment is to cover (i) the consultancy services provided by STUST to the Group relating to the development of the technology on *antrodia camphorata* (樟芝) extract products; and (ii) Professor Chang's visits, attendance of discussions and public seminars in Hong Kong twice a year. Professor Chang's expenses for the trips to Hong Kong will be borne by the Group. The agreement is for a term of two years and STUST may terminate the agreement in the event of any breach by the Group where the Group is unable to rectify. In the event STUST suffers any damages due to the default of the Group or the Taiwanese Supplier, the one-off payment will not be refunded to the Group and shall be deemed as compensation made to STUST. There is no provision for the Group to terminate the agreement. However, under force majeure conditions, the Group is entitled to the unused funds being returned to the Group. All the patent, technical know-how, copyright and other intellectual property rights arising as an outcome of the research belong to STUST.

Simultaneously, the Group entered into a consultancy contract with Professor Chang in March 2012, engaging him as the Group's consultant for *antrodia camphorata* related products. Professor Chang's principal duties are as set out in the aforesaid cooperation agreement. The Group may use the photo and name of Professor Chang for the purpose of promoting and advertising *antrodia camphorata* related products, but not on the packaging of the products. During the term of the contract, Professor Chang shall not act as spokesperson for or provide technical consultation services relating to *antrodia camphorata* products to other third parties. The contract is for a term of two years and either party may terminate the agreement in the event of breach by the other party, where the party in default is unable to rectify the breach.

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In July 2013, the Group entered into a cooperation agreement with CUCAMed Company Limited (中大中醫藥科技有限公司) (“**CUCAMed**”), a wholly-owned subsidiary of The Chinese University of Hong Kong Foundation Limited, to promote and sell PCM products and health supplements developed by CUCAMed under the brand, “LEGEND”. The said cooperation agreement is legally binding on the parties and for a term of seven years. The rights and obligations of the Group and CUCAMed under the cooperation agreement are summarised as follows:

The Group

1. The Group agrees to set up and operate a new wholly-owned subsidiary to register and own the brands, promote and sell PCM products and health supplements researched and developed by CUCAMed.
2. The Group is entitled to promote and sell such products on the behalf of CUCAMed and under the brand name “LEGEND”.
3. The Group has the first priority to select from a series of PCM products and health supplements researched and developed by CUCAMed, and exclusively develop the selected products.
4. For each of the selected products, the Group agrees to make a one-off payment of a pre-agreed sum to CUCAMed.
5. The Group agrees to make the one-off payments of pre-agreed sums for the four products developed by CUCAMed upon signing of the cooperation agreement.
6. The Group agrees to make annual payments of the higher of 5% percent of net sales of the new wholly-owned subsidiary and a minimum of HK\$500,000.
7. In respect of the new company, the Group is responsible for the daily operations and management, as well as staff recruitment of the new wholly-owned subsidiary of the Group.
8. The Group is responsible for, amongst others, purchasing of raw materials, production, quality control, inspection and testing, logistics, marketing and sales, as well as informing CUCAMed the Group’s strategy and means in marketing and advertising the products.

CUCAMed

1. CUCAMed is responsible for the research and development of new PCM products and health supplements, as well as improving the research, effectiveness and efficacy of the products and all the costs incurred.
2. CUCAMed agrees to give the Group the rights of developing the agreed products upon research findings, distribution and sales of the products researched and developed by CUCAMed, as well as exclusive rights of development, distribution and sales of the selected products.
3. CUCAMed is responsible for assisting the Group in registering new products where necessary.

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4. CUCAMed agrees to assist in the promotion and sales of new products as well as supervising the quality control aspects of the products.
5. CUCAMed agrees not to authorise any other entities to use the same brands or promotion slogan with similar meanings of those adopted by the Group.
6. CUCAMed is entitled to annual payments of the higher of 5% percent of net sales of the new wholly-owned subsidiary of the Group and a minimum of HK\$500,000.

Accounting treatment of the costs to be incurred in the Group's co-operation with CUCAMed

For each of the selected products, the Group agrees to make a one-off payment of a pre-agreed sum to CUCAMed, the Group considers it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity. Accordingly, the amount will be recognized as intangible asset in accordance with HKAS38 paragraph 21. The estimated useful life of the intangible asset arising from the products selected for current development with CUCAMed is 7 years. Separately acquired product development rights are shown at historical cost. Product development rights have finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using straight-line method to allocate the cost of product development rights over the estimated useful life of each of the respective intangible asset acquired. The estimated amounts to be recognised as product development rights are approximately HK\$0.8 million for each of the two years ending 31 March 2015.

Expenditure to engage brand ambassador to promote the products and strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials and printed media are not part of the cost of intangible asset in accordance with HKAS38 paragraph 29 and will be recognised as an expense in the period in which it is incurred. The estimated amounts recognised as marketing expenses are approximately HK\$4.4 million and HK\$12.9 million for the two years ending 31 March 2015, respectively.

The remaining balance of HK\$21.1 million will be recognised as either product development rights or marketing expenses after 1 April 2015.

Distribution of the products under the brand "LEGEND"

The Group has yet to decide on the distribution platform for the products to be sold under the "LEGEND" brand, which the decision will be made in consultation with CUCAMed. At this stage, the Group has not decided whether to distribute through the Distribution Facilitator. Should the Group decide to distribute through the Distribution Facilitator, the Trading Terms Agreements will apply.

RAW MATERIALS, PACKING MATERIALS AND SUPPLIERS

Raw Materials

The Group purchases raw materials and packaging materials from Independent Third Parties. The raw materials include raw materials in powder form and semi-finished products in the forms of capsules, tablets, caplets, sachets or syringes containing the ingredients. The raw materials in powder form are the principal ingredients of Royal Medic CS-4 and RM Broken Ganoderma Spore. Other products such as La Gusto Slim Coffee (格斯圖特濃燒脂咖啡), Kiwi Lab Magic Mix (奇異立寶奇妙瘦) and Royal Medic Liver Guard (御藥堂淨肝健), are usually supplied in the forms of semi-finished products containing the ingredients specified by the Group.

The Group purchases raw materials in powder form from suppliers in Hong Kong and the PRC and such purchases accounted for approximately 9.7% and 5.5% of the total cost of sales for the two years ended 31 March 2013, respectively. The Group purchases semi-finished products from suppliers in Malaysia, Taiwan, New Zealand, the United States, Japan and Australia and such purchases accounted for approximately 47.2% and 49.2% of the total cost of sales for the two years ended 31 March 2013, respectively.

Packaging Materials

The packaging materials for the Group's products are mainly containers, paper boxes, composite packaging materials, transparent shrink film and labels, purchased from suppliers/manufacturers on an order-by-order basis. For the two years ended 31 March 2013, the purchases of the packaging materials amounted to approximately HK\$7.2 million and HK\$6.6 million, representing approximately 22.3% and 19.1% of the Group's total cost of sales, respectively.

Suppliers

The Group purchases raw materials and packaging materials from an approved list of suppliers selected based on criteria including their (a) production capacity and financial status, (b) capability (such as GMP status, track record, product quality), (c) compliance with licensing requirements, (d) pricing and (e) internal control. All raw materials and packaging materials provided by the Group's suppliers have to comply with the respective quality control requirements set out in the paragraphs headed "Quality control" in this section. For the two years ended 31 March 2013, the aggregate purchases from the Group's five largest suppliers amounted to approximately HK\$15.7 million and HK\$18.2 million, respectively, representing approximately 53.4% and 64.4% of the Group's total purchases for the same years, respectively.

The five largest suppliers of the Group during the Track Record Period were based in New Zealand, Malaysia and Hong Kong. The suppliers from New Zealand and Malaysia are well-established health food manufacturers with GMP certification in their respective jurisdictions. During the Track Record Period, there were five major suppliers based in Hong Kong: (i) a well-established lab test center with productions facilities, which is also one of the subcontracting manufacturers of the Group; (ii) two companies engaging in printing businesses which supply packaging materials to the Group; (iii) a company that engages in the manufacturing and trading of packaging, accessories and equipments etc., for the pharmaceutical, healthcare and cosmetics industries; and (iv) a company that previously sourced

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the raw materials in powder form to the Group, primarily engaging in the importing distribution and processing of health food, health supplements and medicines. The Group maintains good and stable relationships with its major suppliers and has generally cooperated with them for two to seven years.

The Group usually places orders to its suppliers on an order-by-order basis and has not entered into any long-term agreements with its suppliers apart from the long-term agreement entered into with a PRC supplier as described in the following paragraph. Apart from the PRC supplier, (i) there is no annual minimum quantity purchase, however, there are per-order minimum ordering quantities, which varies from product to product; and (ii) the prices are determined by negotiation between the Group and the suppliers, prices remained stable for the principal material during the Track Record Period. The Group is required to pay a deposit to some of its suppliers upon confirmation of orders and a small number of its suppliers require full advance payment. The Group's suppliers typically require the Group to settle the balance (in case where an advance payment is paid) or provide full payment when goods are ready for shipping or within 14 to 45 days after receipt of the goods and invoices. Payments are generally made by bank transfer or cheque.

All of the Group's suppliers are Independent Third Parties. None of the Directors or any existing shareholders holding more than 5% of the Group's issued share capital, or their respective associates, had any interest in any of the Group's five largest suppliers for any of the two years ended 31 March 2013.

The Group did not experience material price fluctuation of raw materials in powder form, semi-finished products, packaging materials, capsules and encapsulation and bottling services throughout the Track Record Period.

The Group will manage the material costs by (i) negotiating with the suppliers; (ii) sourcing other alternative suppliers and (iii) managing its product mix.

The principal raw materials of the Group are (i) raw materials in powder form; (ii) semi-finished products; and (iii) packaging materials.

The total cost of purchases of raw materials in powder form for the two years ended 31 March 2013, amounted to approximately HK\$3.1 million and HK\$1.9 million, respectively. It is estimated that the Group's profit after tax will decrease/increase by HK\$0.1 million and HK\$0.1 million, for the two years ended 31 March 2013, respectively, with all other variables held constant, if purchase price increases/decreases by 5% for the corresponding years.

The total cost of purchases of raw materials in semi-finished products form for the two years ended 31 March 2013, amounted to approximately HK\$15.3 million and HK\$17.1 million, respectively. It is estimated that the Group's profit after tax will decrease/increase by HK\$0.6 million and HK\$0.7 million, for the two years ended 31 March 2013, respectively, with all other variables held constant, if purchase price increases/decreases by 5% for the corresponding years.

The total cost of purchases of packaging materials for the two years ended 31 March 2013, amounted to approximately HK\$7.2 million and HK\$6.6 million, respectively. It is estimated that the Group's profit after tax will decrease/increase by HK\$0.3 million and HK\$0.3 million, for the two years ended 31 March 2013, respectively, with all other variables held constant, if purchase price increase/decrease by 5% for the corresponding years.

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The total cost of purchases of the above raw materials for the two years ended 31 March 2013, amounted to approximately HK\$25.6 million and HK\$25.6 million, respectively. It is estimated that the Group's profit after tax will decrease/increase by HK\$1.1 million and HK\$1.1 million, for the two years ended 31 March 2013, respectively, with all other variables held constant, if purchase price increase/decrease by 5% for the corresponding years.

The Long-term Sales and Purchase Agreement

The Group has entered into a long-term sales and purchase agreement (the "LTA") with a supplier in the PRC to buy raw materials in powder form for the Group's best selling product Royal Medic CS-4 effective from 15 June 2012 to 31 December 2021. The LTA was initiated by the Group with the objective to secure a long-term stable supply of the most important raw material for the production of Royal Medic CS-4. In order to achieve this objective, the Group intentionally includes only one termination clause, under which the parties are entitled to terminate the agreement only in the event of force majeure (the "**Termination Clause**"). From the Group's point of view, they did not include other termination clause to provide the early termination rights to the PRC suppliers because early termination of the agreement would affect the raw material supply stability. The management of the Group considers that the Termination Clause was not drafted based on industry practice but based on the Group's commercial decisions.

On 18 March 2013, the Group entered into a supplemental agreement with the PRC supplier stipulating inter alia, (i) a detailed breakdown schedule of annual minimum purchase requirement starting from an initial quantity in the first year incrementing progressively until the year ending 31 December 2021 and (ii) fixed pricing until 31 December 2015 and subsequent pricing linked to the change in the electricity prices in a city in the PRC from 1 January 2016 to 31 December 2021.

The pricing is fixed from 15 June 2012 to 31 December 2015. The pricing from 1 January 2016 to 31 December 2018 will be adjusted based on the adjustment of electricity prices in the City of Nanchang from 31 December 2012 to 31 December 2015. The pricing from 1 January 2019 to 31 December 2021 will be adjusted based on the adjustment of electricity prices in the City of Nanchang from 31 December 2016 to 31 December 2018.

In the event of any breach of the terms of the agreement by a party, the defaulting party shall compensate all economic losses suffered by the other party. Assuming (i) the Group is in breach on 15 June 2013 being the beginning of the current period; and (ii) there are 5% increase in electricity prices annually, the compensation for economic loss attributable to the PRC supplier is estimated to be the value of the minimum purchase quantities outstanding, which is approximately HK\$37.3 million. In making this estimation, the management of the Group has checked recent changes in electricity prices in the city of Nanchang, which averaged approximately 5% increase per annual. The change in electricity prices is the only variable factor in the determination of the purchase prices of the raw material and hence the formula for the calculation of the compensation which the Group would be payable in order to fulfill its obligation under the agreement. The reason for using the changes in electricity prices as the basis to determine the price adjustment is due to the representation by the PRC supplier that electricity cost is one of the major cost components in the manufacturing process of the Royal Medic CS-4 raw material in powder form. Therefore, the compensation to the PRC supplier based on the minimum purchase amounts and any increase in electricity changes are not industry practice but commercial decision reached by the parties taking into account of the concerns of the parties.

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In case of the PRC supplier default on its obligation under the LTA, the Group may claim against the PRC supplier for losses suffered by the Group arising out of the breach by the PRC supplier. Nevertheless, it is difficult to estimate the potential losses that the Group may suffer at this moment because the LTA did not expressly stipulate a compensation amount, which may depend on a number of factors.

Although it is not uncommon to find a force majeure clause in commercial contracts, which relates to delay or failure to perform the obligations under the contracts due to the happening of events outside the control of the party in default, it is hard to draw the conclusion that a force majeure clause that allows termination of the contract is a common industrial practice. Also, it is difficult to conclude that a term for price adjustment based on changes in the electricity prices is a common industrial practice. According to the management of the Group, the reason for using the changes in electricity prices as the basis to determine the price adjustment is due to the representation by the PRC supplier that electricity cost is one of the major cost components in the manufacturing process of the Royal Medic CS-4 raw material in powder form. Therefore, both “force majeure termination clause” and “price adjustment clause” are commercial decisions reached by the parties after taking into account of the concerns of the parties.

According to the management of the Group, it makes commercial sense for the Group to enter into the LTA because the benefits of the Group to secure the supply of raw materials in powder form, from the manufacturer of Royal Medic CS-4 as rather stable prices (subject only to the electricity prices) would outweigh the risk of price fluctuation during the term of the agreement.

The PRC supplier requires full advanced payment by bank transfer prior to shipment of products. Since the Group entered into the sales and purchase agreement with the PRC Supplier, there has been no instance of breach of the terms of the agreement.

The purchase from the PRC supplier represented approximately 4.5% and 3.0% of the total cost of sales for the two years ended 31 March 2013, respectively.

Based on the long-term sales and purchase agreement with the PRC Supplier, the Group has (i) secured the supply of raw materials in powder for the manufacture of Royal Medic CS-4 till 2021; and (ii) agreed on the purchase price of this raw material for the next 9 years. In comparison with the previous purchases, the signing of this long term sales and purchase agreement with PRC Supplier has obviously provided the Group with certain stability in the manufacturing and marketing of its best selling product Royal Medic CS-4, belonging to the PCM category. The Group’s other orally consumed products are not being categorised as PCM nor pharmaceutical products and thus, are relatively easier to source alternative suppliers/manufacturers. The Group’s Royal Medic CS-4 have undergone preliminary clinical trials, which differentiates from some of the competitors’ products of similar genres.

Subcontracting arrangements

The Group utilises subcontracting manufacturers based in Hong Kong to carry out encapsulation, bottling and blister-packing services. Such subcontracting manufacturers are all Independent Third Parties. The Group undertakes an assessment on these subcontracting manufacturers before engaging their services.

The Group entered into annual contract manufacturing service agreements with a well-established manufacturer with GMP accreditation in Hong Kong since July 2011 to provide encapsulation and bottling service to the Group for the production of Royal Medic CS-4 and RM Broken Ganoderma Spore (the “**CMS Agreement**”). The said subcontracting manufacturer is one of the Group’s top five suppliers during the Track Record Period. The Group issues a contract service instruction to the said subcontracting manufacturer when manufacturing service is required and transactions are being carried out based on the terms of the CMS Agreement. Please refer to the section in this prospectus headed “Business — Production — Raw materials in power form” for details of the production process.

In addition, the Group engaged a local subcontracting manufacturer to provide blister-packing service on an order-by-order basis. The Group issues materials under a delivery note to the said subcontracting manufacturer when blister-packing service is required. The fee is determined by mutual agreement. The payment terms with the said subcontracting manufacturer is on a cash-on-delivery basis. Please refer to the section in this prospectus headed “Business — Production — Semi-finished products in capsule, caplets, tablets, sachet or syringe forms” for details of the production process. The said subcontracting manufacturer does not provide quality assurance related warranty to the Group.

During the Track Record Period, the Group also engaged another GMP manufacturer in Hong Kong for bottling services on an order-by-order basis. The scale of charges is determined by mutual agreement and stipulated on a quotation document. The payment terms with the said subcontracting manufacturer was on a 30 days from date of delivery basis. Please refer to the section in this prospectus headed “Business — Production — Semi-finished products in capsule, caplets, tablets, sachet or syringe forms” for details of the production process. The said subcontracting manufacturer does not provide quality assurance related warranty to the Group. In May 2012, the Group established two bottling lines at its headquarters, which superseded the need to engage the said subcontracting manufacturer for bottling service. Please refer to the section in this prospectus headed “Business — Production” for details.

The Group maintains good and stable relationships with its subcontracting manufacturers and has generally cooperated with them for one to three years.

For the two years ended 31 March 2013, the aggregate subcontracting fees amounted to approximately HK\$3.8 million and HK\$2.6 million, respectively, representing approximately 11.6% and 7.6% of the Group’s total cost of sales during such years, respectively.

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PRODUCTION

Currently, the Group outsources most of the production of the health supplements and beauty supplements and products to its selected suppliers and subcontracting manufacturers. The Group's suppliers supply raw materials (in the forms of powder/semi-finished products) and packaging materials to the Group whereas the Group's subcontracting manufacturers principally carry out encapsulation and/or bottling work for the Group. As at the Latest Practicable Date, the Group had 101 suppliers principally based in Hong Kong and other areas, such as New Zealand, the PRC, Malaysia, the United States, Japan and Taiwan and three subcontracting manufacturers based in Hong Kong. For the year ended 31 March 2013, the top 10 suppliers accounted for approximately 82.6% of the Group's total purchases of approximately HK\$28.3 million.

The Group procures the raw materials and packaging materials from its suppliers who deliver these items (except for certain semi-finished products) to the subcontracting manufacturers for encapsulation and bottling. The Group also operates two bottling production lines in its headquarters in Hong Kong for certain semi-finished products (i.e. filling capsules into bottles), with a capacity of bottling approximately 3,000 to 4,000 bottles per day. In addition, the Group carries out almost all the packaging and labeling in-house with a capacity of between approximately 3,000 and 6,000 boxes per day depending on the complexity of the packaging.

Generally, the Group's production process could be divided into two categories, depending on the form of the raw materials:

(a) Raw materials in powder form

The raw materials for the Group's products, including Royal Medic CS-4 and RM Broken Ganoderma Spore, are delivered in powder form. The following process flow shows the typical production process of these products:

(i) Supply of raw materials by selected suppliers; (ii) samples of raw materials randomly selected by the Group for lab safety testing; (iii) release of the raw materials to subcontracting manufacturer for manufacturing; (iv) quality inspection, mixing, encapsulation and bottling by subcontracting manufacturer; (v) safety test of samples of products by independent testing centres; (vi) packaging and labeling of the products; and (vii) final inspection of the finished products.



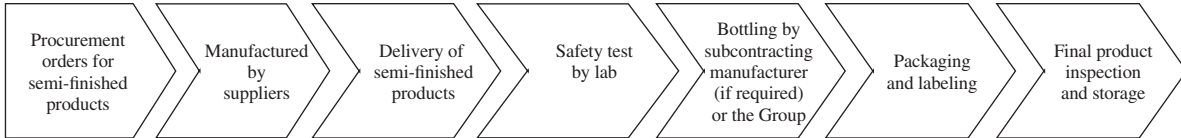
(b) Semi-finished products in capsule, tablets, caplets, sachet or syringe forms

These are usually the semi-finished products, which only require bottling, packaging and labeling. The following process flow shows the typical production process of these products:

(i) Procurement orders for semi-finished products placed by the Group; (ii) semi-finished products manufactured by the Group's suppliers; (iii) delivery of the semi-finished products by the suppliers to the Group; (iv) safety test of samples of the semi-finished products by independent

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testing centres; (v) bottling/blister packaging by subcontracting manufacturers (or by the Group if the semi-finished products are in capsule form), or no bottling if the semi-finished products are in sachet or syringe form; (vi) packaging and labeling of the products; and (vii) final inspection on finished products.



The production lead time for most of the Group’s health supplements and beauty supplements and products is approximately 6 to 8 weeks, with the exception of a small portion of the health supplements and beauty supplements and products for which the lead time is approximately 10 to 12 weeks.

In order to ensure the quality of the Group’s products, the Group adopts stringent processes for selecting its suppliers and subcontracting manufacturers. The Group also maintains quality control over the products manufactured by the Group’s suppliers and subcontracting manufacturers. Please refer to the paragraphs headed “Quality Control” of this section in the prospectus for details of such selection and quality control processes.

During the Track Record Period, the Group did not experience any material interruption to the supply of its products due to the outsourcing of production.

SALES AND DISTRIBUTION

The Group’s sales department is primarily responsible for the overall management of the sales of the Group’s products, including monitoring the implementation of its sales strategies and annual sales plans, assessing its marketing network, evaluating its sales performance, monitoring sales promoters’ performance in the Distribution Facilitator’s stores and training promoters as well as working together with the marketing department to provide support to the product development functions of the Group. In addition, the Group’s sales department is also in charge of the customer services functions of the Group and response to consumers’ enquiries and complaints. As at the Latest Practicable Date, the Group’s sales department has employed 77 sales promoters to station at selected stores of the Distribution Facilitator in Hong Kong. The promoters are remunerated with a basic salary and sales commissions.

The Group sells and distributes its products mainly through the following channels: (i) on the shelves at the stores of the Distribution Facilitator (the Shelved Products); (ii) at the SDCs located at the stores of the Distribution Facilitator (the Counter Products); (iii) at the Hong Kong Brands and Products Expo; (iv) by direct sales via the Group’s membership club, namely, the Wisdom Club; (v) at the Royal Medic Chinese Medicine Clinics; and (vi) by wholesale for some of the Group’s products.

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The following table sets out the breakdown of the Group's total revenue by sales and distribution methods for the two years ended 31 March 2013, respectively:

	For the year ended 31 March			
	2012		2013	
	Revenue <i>HK\$'000</i>	% of total revenue	Revenue <i>HK\$'000</i>	% of total revenue
Shelved in the Distribution				
Facilitator's stores				
Health supplements	79,249	49.9%	81,333	49.7%
Beauty supplements and products	44,037	27.7%	35,624	21.7%
	123,286	77.6%	116,957	71.4%
SDCs located at the Distribution				
Facilitator's stores				
Health supplements	20,365	12.8%	28,290	17.3%
Beauty supplements and products	4,386	2.8%	6,850	4.2%
	24,751	15.6%	35,140	21.5%
Other distribution⁽¹⁾ channels				
Health supplements	9,855	6.2%	10,459	6.4%
Beauty supplements and products	361	0.2%	366	0.2%
	10,216	6.4%	10,825	6.6%
Others⁽²⁾				
Others	540	0.4%	845	0.5%
Total	158,793	100.0%	163,767	100%

Notes:

(1) "Other distribution channel" includes the Hong Kong Brands and Products Expo, the Wisdom Club, wholesalers and the Royal Medic Chinese Medicine Clinics.

(2) "Other" includes rental income and service income generated by Royal Medic Chinese Medicine Clinics.

For the two years ended 31 March 2013, the sales of Shelved Products represented approximately 77.6% and 71.4%, respectively of the Group's total revenue. During the same years, the sales of Counter Products represented approximately 15.6% and 21.5% of the Group's total revenue, respectively. Both Shelved Products and Counter Products are governed under the Trading Terms Agreement. In addition to the figure above, the revenue attributable to the Group's products sold through an associate of the Distribution Facilitator amounted to approximately HK\$226,000 during the Track Record Period, under

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the same Trading Terms Agreement. During the same years, products that were distributed by other distribution channels represented approximately 6.4% and 6.6% of the Group's total revenue, respectively.

Distribution through shelves at the Distribution Facilitator's stores

As at the Latest Practicable Date, the Distribution Facilitator had approximately 355 stores in Hong Kong and approximately 15 stores in Macau. The majority of the Group's products are distributed as Shelved Products in the stores of the Distribution Facilitator to the general public consumers throughout Hong Kong. The Group's relationship with the Distribution Facilitator has been established since 2005. Currently, the Distribution Facilitator is the principal high-street distribution channel of the Group's proprietary brand products, as well as the Distribution Facilitator's private labels products. The Group employed 46 promoters to work at the selected Distribution Facilitator's stores as at 31 March 2013 to promote the Shelved Products, and the Group believes that the presence of the promoters would be advantageous to the sales of the Group's products.

The Distribution Facilitator usually places replenishment orders with the Group on daily basis for the Shelved Products. The Group, for the purpose of special sale events (出位價), advises the Distribution Facilitator on the details of the replenishment orders to coincide with the advertising and marketing activities. The Group issues invoices to the Distribution Facilitator upon fulfilling the replenishment orders by delivery to the Distribution Facilitator's central warehouse, typically on the next day. At this point, from an accounting perspective, revenue from sales of the Group's products is recognised when the title of the products has passed to the Distribution Facilitator. The payment period is up to 120 days from invoice.

Special sale events (出位價) are one-day campaigns where the Group would select certain products or bundles of certain products and offer them for sale on the shelves of the Distribution Facilitator at special prices. These events are usually held several times a year. The Group, in conjunction with the Distribution Facilitator, will estimate the demand of the products for the special sale events (出位價). While the overall demand could be reasonably estimated, the demand from each specific Distribution Facilitator's store is more difficult to be estimated precisely. As it is a one-day event, in order to avoid out-of-stock situations from arising at any particular store, the Group would deliberately make the Distribution Facilitator over stock to avoid such situation. Products remain unsold after a special sale event (出位價) may be returned to the Group by the Distribution Facilitator for credit. The credits are most likely to be processed and accounted for within the same month of each special sale event (出位價). Therefore, the Directors consider that it is unlikely that the sales revenue will be over-stated for any given period. In any case such returns would be accounted for within the month corresponding to the special sale event (出位價) concerned.

Sales at SDCs located at the Distribution Facilitator's stores

As at the Latest Practicable Date, the Group had 15 Royal Medic SDCs and 12 Health Proof SDCs in the Distribution Facilitator's stores in Hong Kong. Royal Medic SDCs were set up with the aim of promoting and selling the Group's proprietary brands and the Distribution Facilitator's private label "Kiwi Lab", products, whereas Health Proof SDCs were set up mainly to promote and sell the Distribution Facilitator's private label, "Health Proof", products. All SDCs are designed by and built at the expense of the Group (including the Health Proof SDCs). The Group employs promoters at each of the SDCs to promote and sell the products directly to the general public consumers.

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In practice, the Group would decide on a list of products to be sold at each of the SDCs. Such products being sold at the SDCs as Counter Products will not be sold at the Distribution Facilitator's shelves as Shelved Products within the same store of the Distribution Facilitator. While all "Royal Medic" brand products are sold at the Royal Medic SDCs, "Health Proof" products are sold at the Health Proof SDCs. Other products, including the Group's proprietary brands and the Distribution Facilitator's private label brand "Kiwi Lab", are sold at the Royal Medic SDCs when the Group requires counter promoters to push the sales of such products. The Group decides on the products to be sold at the SDCs and no approval is required from the Distribution Facilitator.

The promoters at the SDCs keep records of the sales and inventory levels of the Group's products and file a daily sales report with the Group's sales department. The Group's promoters at SDCs contact the Group's sales department to request replenishment of the inventory products stored at the SDCs for sale. Such request is subject to approval by the sales controller or a senior sales officer. The title to the products stored at the SDCs remains with the Group until the products are sold to the general public consumers. The Distribution Facilitator does not keep a record of the inventories at the SDCs. Under such arrangement, products are sold to the general public consumers at those SDCs directly by promoters employed by the Group and the Distribution Facilitator provides cashier service to complete the transaction by taking payment from the general public consumers. The Distribution Facilitator shares a pre-agreed percentage of the proceeds of each sale made at the SDCs, subject to a minimum monetary amount each month for each SDC. Such share of pre-agreed percentage of proceeds is accounted for as rental expenses by the Group. The Distribution Facilitator provides a monthly sales report in respect of the SDCs sales to the Group. The Group reconciles the report with records maintained by its promoters and discrepancies are dealt with as follows: if the monthly discrepancy is less than HK\$10,000 per month for the entire Group, the discrepancy is written-off as an administrative expense. If the monthly discrepancy is in excess of HK\$10,000 for the entire Group, the sales department investigates the SDC promoters' records and the Distribution Facilitator's monthly sales report in order to identify and correct any error. The Group recognises sales at SDCs at month end based on the aggregated SDC promoters' sales records for the month reconciled with the Distribution Facilitator's corresponding monthly sales report.

The Group's products sold at the SDCs as Counter Products remain as inventory of the Group on the Group's balance sheet until they are sold to the general public consumers. Therefore, the inventory at the SDCs is part of the Group's inventory. The average inventory turnover days of the Group for the two years ended 31 March 2013 were 94 days and 125 days, respectively. Please refer to the section headed "Financial Information — Selected data on combined statements of financial position — Inventory" for the analysis on the inventory turnover days.

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Goods return and provision policy

The Distribution Facilitator has the right to return the Group's products sold on the Distribution Facilitator's shelves, i.e. Shelved Products (including the private label products), to the Group pursuant to the Trading Terms Agreement. During the Track Record Period, the Group accepted products returned from the Distribution Facilitator in the following circumstances: (i) unsold products under normal circumstances (which include de-listed¹ products, damaged products and expired products); (ii) unsold products after a special sale event (出位價); or (iii) return for repackaging in order to comply with the laws and regulations in force. The following table sets out the breakdown of the Group's return statistics for the two years ended 31 March 2013:

	For the year ended 31 March			
	2012		2013	
	Amount <i>HK\$'000</i>	% of Total Revenue	Amount <i>HK\$'000</i>	% of Total Revenue
Return statistics				
Unsold products under normal circumstances	2,732	1.7%	1,127	0.7%
Unsold products after special sale event (出位價) and repackaging	16,568	10.4%	18,870	11.5%
Total	19,300	12.1%	19,997	12.2%

The Distribution Facilitator provides the Group with a goods return report and a stock-on-hand report each month. The goods return report and the stock-on-hand report are reviewed by both the Group's sales department and finance department and are approved by the sales controller.

The amounts of goods returned by the Distribution Facilitator, excluding return of unsold products after the special sale event (出位價) and return for repackaging in order to comply with the laws and regulations in force, for the two years ended 31 March 2013 amounted to approximately HK\$2.7 million and HK\$1.0 million, respectively, representing approximately 1.7% and 0.6% of the Group's total revenue of the corresponding years.

The Group has also accepted products returned from the general public consumers during the Track Record Period and each case is assessed individually on its own merit by the customers services department and individually approved by the sales controller. The amounts of goods returned by the general public consumers for the two years ended 31 March 2013 amounted to approximately HK\$32,000 and HK\$97,000, respectively.

¹ "De-listed" products are products which sales are to be discontinued by the Group at the Distributions Facilitator's stores.

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The private label products being sold at the Distribution Facilitator's shelves as Shelved Products are subject to the same goods return policy as per under the Trading Terms Agreement. For the two years ended 31 March 2013, the amounts of private label products returned by the Distribution Facilitator amounted to approximately HK\$395,000 and HK\$192,000, respectively. The private label products being sold at the SDCs as Counter Products remain as inventory of the Group until they are sold to the general public consumers. Hence, there is no cause for the Distribution Facilitator to return such private label products. The returns of such private label products are only limited to the returns from the general public consumers, which are immaterial. For the two years ended 31 March 2013, the private label products returned by the general public consumers amounted to approximately HK\$4,000 and HK\$16,000, respectively.

	For the year ended	
	31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Distribution Facilitator		
Proprietary brands	2,305	838
Private label brands	395	192
Total	2,700	1,030
	For the year ended	
	31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
General public consumers		
Proprietary brands	28	81
Private label brands	4	16
Total	32	97

As the Distribution Facilitator has the right to return to the Group the unsold products, the Group has instituted a policy of making provision for goods returned by the Distribution Facilitator pursuant to HKAS 37 — Provisions, Contingent Liabilities and Contingent Assets, which represents the present value of the directors' best estimate of future outflow of economic benefits that will be required under the Group's obligations under the goods return policy.

The Distribution Facilitator provides to the Group a report on returned goods as well as a stock-on-hand report every month and the Group's management will check against the Group's records.

The amount of goods sold to the Distribution Facilitator, which were not sold to the general public consumers as at 31 March 2012 and 2013 were approximately HK\$8.6 million and HK\$10.4 million, respectively. Based on the Distribution Facilitator's stock-on-hand report and the Group's accounting records, the Distribution Facilitator's stock-on-hands of the Group's products as at 31 March 2013 was approximately HK\$ 10.4 million. According to the Distribution Facilitator's weekly sales report and the

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Group's records, up to 30 April 2013, subsequent sale of such stock-on-hand were approximately HK\$8.1 million accounting for 77.9% of the total stock-on-hand as at 31 March 2013. Up to 31 August 2013, subsequent sale of such stock-on-hand were approximately HK\$10.0 million accounting for 96.4% of the total stock-on-hand as at 31 March 2013.

Based on the goods return report, the Group will charge the value of returned goods against the goods return provision as mentioned above. Additional provision would be made if there were a shortfall. Adjustment will then be made to make the outstanding balance standing in the goods return provision to equal to 10% of the value of the Distribution Facilitator's stock-on-hand based on the stock-on-hand report.

The Group had applied HKAS 18 — Revenue and the Group recognises sales when goods are delivered at the premises of the Distribution Facilitator, which is taken to be the point in time when the Distribution Facilitator has accepted the goods and the related risks and rewards of ownership, net of sales return.

The revenue recognition in respect of "sale of goods" is in accordance with "HKAS 18 Revenue", the Group "recognizes sales when goods are delivered at the premises of the Distribution Facilitator, which is taken to be the point in time when the Distribution Facilitator has accepted the goods and the related risks and rewards of ownership, net of sales return", such revenue recognition policy can be referenced to HKAS 18 paragraph 14.

For the point that "the Distribution Facilitator can return goods to the Company", reference can be made to HKAS 18 paragraph 17, it stated that "If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognized". The presence of a "goods return provision" in respect of the sale to the Distribution Facilitator is similar to the example quoted in HKAS 18 paragraph 17, "a retail sale when a refund is offered if the customer is not satisfied", which is as an example stating that "the entity is considered as retaining only an insignificant risk of ownership" and the transaction is a "sale" and "revenue in such case is recognized at the time of sale provided the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors".

The actual "movements of goods return" as disclosed in Note 23 to the financial statements indicated that the "provisions utilized" in each respective years is "similar" to the "provision made" which agreed with the criteria as set out in HKAS 18 paragraph 17 that "the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and other relevant factors", this justify the Group's accounting policy of "recognizing sales when goods are delivered at the premises of the Distribution Facilitator, which is taken to be the point in time when the Distribution Facilitator has accepted the goods and the related risks and rewards of ownership, net of sales return".

Based on the monthly stock-on-hand report provided by the Distribution Facilitator, the average inventory turnover days of Shelved Products for the two years ended 31 March 2013 were 25 days and 32 days, respectively.

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Sale promoters

The following table sets forth the revenue attributable to the Group's promoters for the two years ended 31 March 2013:

	For the year ended 31 March					
	2012			2013		
	No.	Amount <i>HK\$'000</i>	% of Total Revenue	No.	Amount <i>HK\$'000</i>	% of Total Revenue
Promoters						
<i>SDCs promoters</i>	22	24,751	15.6%	25	35,140	21.5%
<i>Shelves promoters</i>	56	57,619	36.3%	46	58,086	35.5%
Total	<u>78</u>	<u>82,370</u>	<u>51.9%</u>	<u>71</u>	<u>93,226</u>	<u>57.0%</u>

Sales at the Hong Kong Brands and Products Expo

The Group has participated in the annual Hong Kong Brands and Products Expo since 2006, which lasts for approximately three weeks each year. The Group has participated as an official sponsor since 2007. At the Hong Kong Brands and Products Expo, the Group sets up booths to promote and sell its products to the general public consumers directly. The Group may temporarily reassign promoters that are stationed at the Distribution Facilitator's stores as well as hire temporary workers to work at the event. The following table sets out the breakdown of revenue from the Hong Kong Brands and Products Expo for the two years ended 31 March 2013:

	For the year ended 31 March			
	2012		2013	
	Amount <i>HK\$'000</i>	% of Total Revenue	Amount <i>HK\$'000</i>	% of Total Revenue
Hong Kong Brands and Products Expo Revenue	9,424	5.9%	10,008	6.1%

Direct sales via the Wisdom Club

The Group established a loyalty club (the "Wisdom Club") in 2003 and registered it as a branch of Wisdom Health Products Company Limited in 2006. The key objectives of the Wisdom Club are to promote the Group's products, build customer loyalty and maintain customers' relationship by offering various rewards and privileges to members. Wisdom Club had approximately 54,000 members as at the Latest Practicable Date. With a view to expanding its distribution channel and the better utilisation of its members' database, the Group has used telemarketers to contact members directly to sell products since October 2012. At the current stage, since the Distribution Facilitator's extensive network of stores provides convenience for the general public consumers to have access to almost all the Group's products, the Group only sells the products that are discontinued at the Distribution Facilitator's store to the Wisdom Club members. Base on regular reviews of the products sales performance, the Group

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would negotiate with Distribution Facilitator to consider de-listing certain products. Only the de-listed products that are of merchantable quality and within their expiry dates would be offered to members of the Wisdom Club at discounted prices by the Group's telemarketers. The Group's Wisdom Club only sells products, which are not available at the Distribution Facilitator's stores to the Wisdom Club members. The revenue derived from selling these discontinued products to the Wisdom Club members amounted to approximately HK\$0.3 million and HK\$0.3 million, respectively for the two years ended 31 March 2013, representing approximately 0.2% and 0.2% of the Group's revenue of the corresponding years.

Through the Wisdom Club, in addition to recruiting new members, the Group is able to (1) handle general enquires, (2) handle goods returned by its customers, (3) deliver promotional materials, (4) organise promotional events, (5) sell products; and (6) provide members a channel through which to redeem products or gifts.

Pricing Policy

The pricing of the Group's products is determined by the Group. At the development stage of a new product, the Group would, after taken into consideration the estimated costs related to, *inter alia*, market research formulation, preliminary clinical trial (if required), raw materials, manufacturing, packaging and marketing, etc., decide on an initial price range for the new product.

Evaluation of market demand and comparison with similar products already available (if exist) in the market are conducted, and at times, consultation with the Distribution Facilitator will be held before the Group making the final decision on the retail price of a product.

After deciding the retail price of a product, if such product is to be sold as a Shelved Product, negotiation with the Distribution Facilitator will be held to determine on the wholesale price, and the Distribution Facilitator will purchase the product from the Group at the agreed wholesale price in accordance with the Trading Terms Agreement. Similar procedure applies to a Counter Product except that the Distribution Facilitator will share the sale proceeds of the product after the product has been sold to the general public consumers. The pricing of both the Group's proprietary products and the Distribution Facilitators private label products follows this procedure.

There are two circumstances whereby discount to the retail prices of the Group's products would occur: (i) promotion events initiated by the Distribution Facilitator; (ii) promotions initiated by the Group.

- (i) Promotion events initiated by the Distribution Facilitator. The Distribution Facilitator decides on the percentage of the discount to be offered to the general public consumers and the promotion period, and invites its suppliers to participate in the promotion events. As such, promotion events are initiated and organized by the Distribution Facilitator, the Group's consent is not required on the discount percentage and the only decision/action the Group has to make is whether or not to participate in such promotion events. For Shelved Products and Counter Products, which participate in such promotion events, they would follow the same discount percentage as determined by the Distribution Facilitator. The Group would normally consider the benefits accrued to sales of the Group's products and participates in the promotion events proposed by the Distribution Facilitator.

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- (ii) Promotions initiated by the Group could be:
- a. Special sales events (出位價) held by the Group. These are large-scale one-day events organised by the Group. The Group would decide on the special sale event retail price and promotion date based on (i) market demand, (ii) its media plan, and (iii) inventory level. The Group then holds consultation with the Distribution Facilitator in respect of the timing and the logistics required to launch such special sale events.
 - b. Discount offers decided by the Group from time to time. The Group determines the discount percentages. The Group may at its discretion decide to offer such discounts to the general public consumers in respect of one particular or certain of the Group's products to stimulate sales.

Credit policy

For the Group's sales to its distributors, the Group offers a credit period of up to 120 days from the end of the invoice month and distributors usually settle invoices by means of bank transfer or cheque within such period. The Group normally uses Hong Kong dollars as its settlement currency for its sales.

For sales of the Group's products directly to the general public consumers at fairs and exhibitions and to members of the Wisdom Club, the Group receives full payment for the products immediately by means of cash or credit card when the products are sold.

THE GROUP'S DEALINGS WITH THE DISTRIBUTION FACILITATOR

The Group has established its business relationship with the Distribution Facilitator since 2005. The Group's products supplied for sale on the Distribution Facilitator's shelves accounted for approximately 77.6% and 71.4% of the Group's total revenue for the two years ended 31 March 2013, respectively.

By selling through the Distribution Facilitator and establishing the Group's own SDCs in the Distribution Facilitator stores, the Group is able to target its products at different consumer groups in all districts in Hong Kong.

Background of the Distribution Facilitator

The Distribution Facilitator is indirectly owned by one of the leading pan-Asian retailers that has approximately 5,600 retail outlets in Asia, including Hong Kong, Macau, the PRC and Southeast Asia. As at the Latest Practicable Date, the Distribution Facilitator had approximately 355 stores in Hong Kong and approximately 15 stores in Macau. Based on the findings of Ipsos, the Distribution Facilitator is presently the largest retail chain of health supplements and beauty supplements and products in Hong Kong and has an extensive retail network throughout Hong Kong.

History with the Distribution Facilitator

The Group has started supplying its products to the Distribution Facilitator since 2005. In 2009, the Group set up its first SDC in the Distribution Facilitator's stores. As at the Latest Practicable Date, other than sales at the Hong Kong Brands and Products Expo, most of the Group's current products were made available only to the Distribution Facilitator, either as Shelved Products or Counter Products. The Distribution Facilitator is the main retail channel of the Group's products in Hong Kong.

The Group entered into two private label products agreements with the owner of the Distribution Facilitator in 2010 and 2011, respectively, to develop and supply health supplements and beauty supplements and products under the private labels of the Distribution Facilitator.

Save and except for the ongoing business relationship between the Distribution Facilitator and the Group, the Distribution Facilitator has no past or present relationship with the Group, its Controlling Shareholders, its Directors and their respective associates.

Contractual arrangements with the Distribution Facilitator

The Group's products are made available in the Distribution Facilitator's stores by two means. Firstly, the Group distributes its products through the Distribution Facilitator, which sells those products in its stores to the general public consumers by displaying the Group's products on the shelves at the Distribution Facilitator's stores (i.e. the Shelved Products). The Group's products are widely displayed and sold on the retail shelves space of the Distribution Facilitator's extensive retail network across Hong Kong. The Distribution Facilitator places replenishment orders and the Group fulfils such orders by delivering products to the central warehouse of the Distribution Facilitator. The retail prices of the products are determined by the Group, in consultation with the Distribution Facilitator. The Group would invoice the Distribution Facilitator at wholesale prices, which is recognised as revenue by the Group. When the Group's Shelved Products are sold to the general public consumers, the retail sales proceeds are attributable to the Distribution Facilitator. The sales of the Shelved Products are not subject to any monthly minimum. The Group recognises revenue at the wholesale prices in accordance with HKAS 18 Revenue. Please refer to the paragraph headed "Distribution through shelves at the Distribution Facilitator's Stores" under the sub-section "Sales & Distribution" in this section for further information on the basis of revenue recognition of the Shelved Products. The majority of the Group's products are sold this way.

Secondly, the Group has established its SDCs in selected stores of the Distribution Facilitator. Products sold through the SDCs (i.e. the Counter Products) are sold directly by the sales promoters employed by the Group to the general public consumers with the Distribution Facilitator handling the payment. The inventory of products held at the SDCs remains as assets of the Group until they are sold to the general public consumers. The retail prices of the products are determined by the Group, in consultation with the Distribution Facilitator. When a sale is made by a promoter to a general public consumer, the Distribution Facilitator would handle the payment. The Group recognises the retail sales proceeds as revenue. The Distribution Facilitator shares a pre-agreed percentage of the retail sale proceeds of each sale made subject to a pre-agreed minimum amount each month. Apart from the SDC situated at the Hong Kong International Airport, based on the pre-agreed percentages, the Group's share of the retail sales proceeds ranges from 66.0% to 67.0%, the Distribution Facilitator's share of the retail sales proceeds ranges from 33.0% to 34.0%. For the SDC situated at the Hong Kong International Airport, 54% of the retail sales proceeds are attributable to the Group and 46% of the sales proceeds are

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attributable to the Distribution Facilitator. Please refer to the paragraphs headed “Sales at SDCs located at the Distribution Facilitator’s stores” under the sub-section “Sales and Distribution” in this section for further information on the basis of revenue recognition of Counter Products. The percentage sharing of SDC retail sales proceeds is accounted for as rental expenses by the Group in accordance with HKSA 18 Revenue. Apart from the above, there is no additional profit-sharing arrangement between the Group and the Distribution Facilitator.

The Group entered into the Trading Terms Agreement in 2005 and two private label products agreements in 2010 and 2011, respectively, with the owner of the Distribution Facilitator. Under the trading arrangement with the Distribution Facilitator, the Group’s products sold through the Distribution Facilitator is subject to an initial “listing fee”¹. During the Track Record Period, the total initial one-off listing fees paid to the Distribution Facilitator for the Shelved Products under the Group’s proprietary brands was approximately HK\$600,000. The initial one-off listing fee is not applicable to the Distribution Facilitator’s private label products. The payment period is up to 120 days from invoice. Further, according to the Trading Terms Agreement, the Distribution Facilitator can return any (i) unsold products under normal circumstances (which include de-listed products, damaged products and expired products); (ii) unsold products after the special sale event (出位價); or (iii) return for repackaging in order to comply with the laws and regulations in force to the Group. The Trading Terms Agreement will continue to apply until superseded or amended by any alternative agreement subsequently confirmed in writing by the owner of the Distribution Facilitator. To date, the Trading Terms Agreement remains in force. There is no provision in the Trading Terms Agreement which prohibits the Group from entering into any agreement or arrangement with other party in respect of products distribution after termination of the business relationship between the Group and the Distribution Facilitator. The trading terms between the Group and another retail chain in Hong Kong from 2002 to 2005 called for annual renewal, which was the key difference when compared with the current Trading Terms Agreement. Other than that, the Trading Terms Agreement and the historical trading terms between the Group and another retail chain in Hong Kong are substantially the same.

According to the two private label products agreements for the brands “Kiwi Lab” and “Health Proof”, the Group is to develop and supply the private label products exclusively to the Distribution Facilitator and the Distribution Facilitator is to source the private labels products exclusively from the Group. Further, according to the private label products agreements, the owner of the Distribution Facilitator is the owner of the trademarks of the private label brands, namely, “Kiwi Lab” and “Health Proof” and has authorised the Group to use such trademarks in the performance of the agreements. The private label products agreements may be terminated at any time after two years of the date of the agreement by mutual agreement of both parties. The Group is granted an option to purchase the private label trademarks upon the termination of the private label agreements if such termination did not arise as a result of the Group’s default. Therefore, once the private label agreements are terminated, the Group may, at its discretion, acquire the trademarks of the private label products and sell such products through other distributors. The terms of the Trading Terms Agreement, such as the payment terms and goods return policy, also apply to the private label products.

¹ The “listing fee” is a one-off service fee charged by the Distribution Facilitator when a new product is introduced into the entire chain of the Distribution Facilitator’s stores in Hong Kong. Such fee is negotiated on a product-by-product basis and sometimes could be waived at the Distribution Facilitator’s discretion.

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In respect of the Shelved Products, the Group has no pre-agreed sales volumes with the Distribution Facilitator. The Distribution Facilitator places replenishment orders, almost on a daily basis, with the Group based on the latest sales performance. The Directors confirm that the Group had not incurred any material liabilities or assumed any material expenses arising from any complaints, claims or legal actions by the Distribution Facilitator in relation to the Group's products, or suffered any losses as a result of any rejection of the Group's products due to unsatisfactory quality, during the Track Record Period and up to the Latest Practicable Date. Based on the records of (i) the Distribution Facilitator's repeated replenishment orders for the Shelved Products, (ii) the growth in the number of SDCs and (iii) the increase in the sales of the Counter Products throughout the Track Record Period, the Group believes that its products sell well in the Distribution Facilitator's stores under the current arrangement.

According to the Ipsos Report, retail channels for health supplements and beauty supplements in Hong Kong are beauty and healthcare stores, drugstores, grocery retailers, own branded store, non-store retailers and others. In terms of retail market value beauty and healthcare stores represented approximately 40% and 27% market share of health supplement and beauty supplement retail channels, respectively, in 2012. Beauty and healthcare stores are the largest and second largest in these respective channels. Under the Trading Terms Agreement, there is no binding obligation requiring the Group to sell its proprietary brand products through the Distribution Facilitator exclusively. The Group's business decision on only utilising the Distribution Facilitator was based on (i) the Distribution Facilitator's more extensive geographical coverage of its network of stores in Hong Kong; (ii) the ability to minimise the level of inventory by avoiding the need to spread the Group's products across multiple distributors; and (iii) the benefit of minimising administrative and logistical burden by only having to interface with a single distributor.

Beauty and healthcare stores carry a diverse variety of products sourced from numerous suppliers. Based on the experience of the executive Directors of the Group, the beauty and healthcare stores generally use simple and standardised trading terms agreements for their suppliers.

The business relationship between the Group and the Distribution Facilitator has so far sustained for 8 years and is continuing. As long as the general public consumers are continuing to purchase the Group's products from the Distribution Facilitator, the Directors consider that there is no compelling reason for the Distribution Facilitator to end the business relationship and stop distributing the Group's products to the general public consumers. Furthermore, the Group's relationship with the Distribution Facilitator appears to be in very good terms given that the Group is managing and producing private label products for the Distribution Facilitator. Given the benefits of distributing the Group's products through the Distribution Facilitator, the Group has not in the past actively explored the possibility of sales through other retailers or distributors as an alternative distribution channel. In the interest of preserving such good relationship with the Distribution Facilitator, the Group has taken the commercial decision to distribute the majority of its products only through the Distribution Facilitator. The Group has not intended, and does not intend, to deviate from such distribution model in the short term.

Notwithstanding the Group's historical dealings with the Distribution Facilitator, which the Group expects to continue, the Group believes that it has the ability to sell and distribute its products through other retailers and/or sell directly to the general public consumers. Given the outstanding quality of the Group's products as recognised by the general public consumers, the skilful team of promoters and the Group's reputation and track record as a supplier to the Distribution Facilitator, the Group is confident that it would be able to establish alternative channels to sell the Group's products where necessary.

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The Group has identified a number of alternative distribution facilitators in Hong Kong which has the characteristics of (i) possessing a retail network with good coverage; (ii) feasible to deploy the Group's promoters and possibility to establish SDCs; and (iii) supports in store promotions and advertising. In the event that the Distribution Facilitator decides to terminate its business relationship with the Group, the Directors believe that the Group should be able to engage alternative distribution facilitators to provide a platform for the Group to sell its products. The key steps required to implement the relocation to an alternative distribution facilitator is as follows:

1. The Group would start negotiations to engage distribution platforms, which have (i) retail networks with good coverage; (ii) the feasibility to deploy the Group's promoters and (iii) possibility to establish SDCs; and (iv) support in store promotions and advertising. Negotiations are expected to take up to one month to cover details such as the deployment of promoters, in-store promotions and advertising, future establishment of SDCs, private labels, and so forth;
2. Upon engagement, it is expected to take about 3 to 4 weeks to carry out the following with the new distribution facilitator, (i) open a supplier account; (ii) present the Group's products (including (a) submission of product test reports; and (b) UMAO and Trade Description Ordinance screening); and (iii) register such products into stores and sales systems;
3. The development of in-store promotions and advertisings are to take place simultaneously as point 2 above;
4. The development of other advertising and media campaign to disseminate information to the general public consumers that the Group's product will be available at the new distribution facilitators are to take place simultaneously as points 2 and 3 above; and
5. About one week before the roll-out date at the new distribution facilitators' stores, the Group will (i) deliver products to the central warehouse of the distribution facilitator; (ii) deliver training to the Group's promoters on particulars of the new distribution facilitators; (iii) briefings for the new distribution facilitators' staff on the Group's products; and (iv) launch media campaign to disseminate information to the general public consumers regarding the pending relocation to the new distribution facilitators.

With the recent experience in Taiwan to set up distribution arrangement with the Taiwan Distribution Facilitator, the Directors believe that the relocation to an alternative distribution facilitator is achievable within 3 to 4 months time scale.

MARKETING AND PROMOTION

The Group has placed strong emphasis on the marketing and promotion of its brands and products. As at the Latest Practicable Date, the Group's marketing team consists of 14 staff and is responsible for the design and promotion of the Group's proprietary brands and products and the Distribution Facilitator's private label brands and products, as well as the formulation of the marketing strategies. The Group is in full control of the marketing campaigns including the selection of products to be advertised, the selection of media, pricing, and promotion timing.

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In general the Group's marketing team holds daily meetings to collect and analyse news relating to the health and beauty industry and compiles a daily market update report, which is circulated internally every day. In addition, the Group's sales and marketing teams hold weekly meetings to analyse the sales performance of each product, review advertising feedback and strategies for the previous week, discuss marketing ideas and formulate the coming week's marketing plan and budget based on the feedback received. Furthermore, the Group's sales team has regular meetings with the promoters to analyse customer feedback.

To enhance recognition of the Group's brands, the Group has engaged famous local artistes to endorse its products during the Track Record Period, including Ms. Michelle Yim Wai Ling (米雪), and Mr. Michael Miu Kiu Wai (苗僑偉).

The Group has adopted a multi-faceted marketing strategy to market and promote its brands and products. The Group implements its branding and marketing strategies through various media and channels, such as television commercials, printed media, digital media, outdoor advertising, in-store promotion, the Wisdom Club and product road shows.

- **Television commercials**

The Group places great emphasis on television commercials that are broadcast through major television channels such as Television Broadcasts Limited ("TVB"). The Group has been working closely with TVB on broadcasting the Group's television commercials since 2008. The Group has strategically placed its television commercials at different time slots to capture different consumer groups.

- **Printed media**

The Group places advertisements of its brands and products in newspapers, such as Oriental Daily, The Sun, Apple Daily, Headline Daily, Metro Daily and AM730 as well as magazines, such as East Week, Next Magazine, Sudden Weekly, Oriental Sunday, TVB Weekly and 3 Weekly Magazine from time to time.

- **Digital media**

The Group's website (www.royalmedic.com) allows the Group to place the latest product information, advertisements and commercials as well as the latest news on the internet. It is a cost-effective tool to advertise and promote the Group's brands and products to the general public consumers.

- **Outdoor advertising**

The Group carries out large scale outdoor advertising and promotional activities, such as placing advertisements on MTR station billboards, buses in Hong Kong and cross border buses as well as organising overseas road-trips.

- **In-store promotion**

The Group employed 77 promoters as at the Latest Practicable Date, to station at the Distribution Facilitator's stores, including the Royal Medic SDCs and Health Proof SDCs, to promote and sell the Group's products to the general public consumers. The Group's marketing personnel also work closely with the Distribution Facilitator to implement the Group's marketing strategy and organise promotional events. The Group usually holds large scale promotional activities in the Distribution Facilitator's stores such as special sales events (出位價) several times a year.

- **The Wisdom Club**

The Wisdom Club, the Group's customer loyalty membership club, provides the Group with an additional marketing and sales channel to reach the general public consumers directly. The Wisdom Club had approximately 54,000 members as at the Latest Practicable Date. With a view to expanding its distribution channel and making better use of its members' database, the Group started using telemarketers to contact members directly to sell products in about October 2012. Currently, the Group has 4 telemarketers dedicated to direct selling to the Wisdom Club members.

- **Product road shows**

The Group carries out road shows from time to time to promote sachet based health supplements and beauty supplements (such as Royal Medic Detox Solution (御藥堂解便通), La Gusto Slim Coffee (格斯圖特濃燒脂咖啡) and Kiwi Lab Magic Mix (奇異立寶奇妙瘦)) across Hong Kong. During the road shows, the Group gives out free trials, product samples and cash coupons to the general public consumers. At the same time, the Group will collect the general public consumers' feedback and invite the general public consumers to join the Wisdom Club.

The aforesaid marketing and promotional activities, such as celebrity endorsements, television commercials and print advertisements are formulated and implemented solely by the Group at its own expense. The Distribution Facilitator also works closely with the Group's sales and marketing teams and supports its activities. The Distribution Facilitator also provides the Group with relevant sales feedback and informs consumers by means of electronic direct mailing.

The Group obtains market information by communicating directly with the general public consumers through the sales promoters employed by the Group. In addition, the Group operates several customer service hotlines that allow the general public consumers to reflect their views on the Group's products. The Group assesses and analyses this information for the purpose of enhancing the quality of its products.

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The following table sets out the Group's marketing expenses for the two years ended 31 March 2013, respectively.

	For the year ended 31 March			
	2012		2013	
	Amount	% of	Amount	% of
	HK\$'000	Group's	HK\$'000	Group's
		total revenue		total revenue
Marketing expenses	20,366	12.8%	25,442	15.5%

QUALITY CONTROL

The Group implements quality control procedures from the procurement of raw materials and selection of suppliers and subcontracting manufacturers to production, packaging and labeling. The Group's senior management team is actively involved in setting internal quality control policies and monitoring the product quality control process. As at the Latest Practicable Date, the Group had a quality control team of 3 employees overseeing the quality control procedures.

The Group's quality control team is led by the chief production officer. The details of his qualifications and experience are set out in the section headed "Directors, senior management and staff" in this prospectus. The other members of the quality control team are the production manager and the quality assurance manager of the Group. The production manager, Ms. Ng Cho Ting, has over 5 years' experience in quality assurance and production. Before joining the Group, she worked as a quality assurance assistant for Vickmans Laboratories Limited from 2006 to 2008, assistant production officer for Wai Yuen Tong Medicine Company Limited in 2008 and assistant production manager for Karen Laboratories O/B Karen Pharmaceutical Company Limited from 2010 to 2012. She obtained a Higher Diploma in Pharmaceutical Technology in Chinese Medicine from the Hong Kong Institute of Vocational of Education in 2006 and a bachelor degree in Pharmaceutical Studies from the University of Sunderland (U.K.) in 2009. The quality assurance manager, Mr. Fung Chin Yeung, has over 3 years' experience in quality assurance and production. Before joining the Group, he worked as a quality control officer for Polyfood Food Service Co. Ltd. from 2010 to 2012. Mr. Fung graduated from The Chinese University of Hong Kong with a bachelor degree in Food and Nutritional Science in 2010. He completed the Food Toxicology and Safety course offered by The Chinese University of Hong Kong. Mr. Fung also attended the Codex-HACCP: 2003 Understanding & Internal Auditor Training course conducted by TQC Development Centre Ltd. in 2011.

The Group selects its suppliers and subcontracting manufacturers based on criteria including their capacity, product quality, quality control, production environments and so forth. It is the Group's policy that all potential suppliers are required to obtain certifications such as HACCP, GMP and ISO and provide their sample products to the Group for inspection and evaluation. Inspection involves i) sample tasting; ii) visual colour inspection; and iii) odour test. Evaluation involves target group trials. The Group's suppliers are required to provide a certificate of analysis prepared by them and/or a lab test report prepared by an independent testing centre in the relevant jurisdiction of the Group when delivering the raw materials. A certificate of analysis gives the exact details about its quality and compliance to specifications and is a document relating specifically to the result of testing a representative sample drawn from a specific batch or lot of material it is purported to represent. The

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Group's subcontracting manufacturer will conduct internal quality inspection on the raw materials in powder form before commencing the mixing and encapsulation process. The internal quality inspection involves microbial test. Suppliers with such suppliers accreditations are expected to manufacture according to the required specifications.

The Group monitors the quality and safety of its finished products on four levels. For each batch of products manufactured, samples of that batch will be sent to an external testing centers accredited with either HOKLAS or ISO 17025 to perform safety tests for the following level i) to iii):

- i) For the raw materials in powder form, the Group will conduct a safety test before commencing the mixing and encapsulation process, which includes phthalate content in food, heavy metal or toxic elements test, microbial limit test, organochlorine pesticides residue test.
- ii) For the empty capsules, all capsules used in the Group's products shall pass the safety test on chromium.
- iii) For the semi-finished products, safety test will be conducted before proceeding to packaging, which includes phthalate content in food, heavy metal or toxic elements test, microbial limit test, organochlorine pesticides residue test and western medicine test (certain products are required to undergo western medicine test depending on the nature of products to confirm such products do not contain any western medicine).
- iv) The Group also carries out internal inspection on finished products including labels, boxes and instruction manuals to ensure consistency in the quality of its products.

Furthermore, in order to prevent product mix-up within the Group's in-house packaging and labeling facilities, only one product will undergo packaging and labeling at one time. A clear-out procedure will take place before another product will be processed.

Defective products will be either replaced by the suppliers or disposed of by the Group, whereas qualified products will be further processed with external packaging to arrive at finished products. The Group will also keep retention samples of all its products for each batch, which are sufficient for one more safety tests in the future if necessary.

Although the Group outsources all of the production in respect of encapsulation and some of the production in respect of bottling to selected subcontracting manufacturers, the Group ensures that the production environment and product quality complies with its own standards and external audits are required for the major suppliers and subcontracting manufacturers. The Group examines the packaging materials for their appearance, specification, endurance and compatibility with the Group's products to ensure that the packaging materials are in compliance with industry standards and regulatory requirements.

The Group's logistics department monitors the storage of the finished products and records the temperature and humidity of the warehouse environment twice a day, to ensure the finished products are stored in the appropriate environment.

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Since 2008, the Group has applied for Royal Medic CS-4 to participate in the A-Mark Scheme. IACM was accredited with ISO/IEC17025 under the Hong Kong Laboratory Accreditation Scheme (香港實驗所認證計劃) in November 2003. As the quality of Chinese medicine products in the market varies, it has led to public concern over the safety and efficacy of such products. IACM therefore launched the A-Mark Scheme in mid 2007 to promote Chinese medicine products with outstanding quality. The A-Mark Scheme, endorsed by Hong Kong Chinese Medicines Authentication Centre, aims to promote Chinese medicine products that have (i) passed authentication including microscopic identification of herbs; (ii) passed safety tests relating to heavy metals, pesticide residues and microbiological contents in ISO17052 accredited laboratories; and (iii) complied with chemical marker requirements as stipulated in the Pharmacopoeia of the PRC 2005. Chinese medicine products awarded with the A-Mark qualification must pass all tests carried out by IACM based on eight samples selected randomly. This is to ensure that the quality of the product awarded under the A-Mark Scheme is stable and up to standard so as to safeguard public health and enhance consumers' confidence.

Essentially, IACM carries out analyses, appraisals and examinations from time to time on samples of products, which are provided by the Group or randomly purchased by IACM in the market. Since the Group's participation of the A-Mark Scheme in 2008, Royal Medic CS-4 has passed the tests carried out by IACM in relation to ingredients, safety and the quality and has been awarded and qualified in "A-Mark Quality Chinese Medicine Authentication Certificate" by Hong Kong Chinese Medicine Authentication Centre. In 2013, one of the Group's top selling products, RM Broken Ganoderma Spore, has also participated in the A-Mark Scheme and awarded and qualified in "A-Mark Quality Chinese Medicine Authentication Certificate" by Hong Kong Chinese Medicine Authentication Centre.

Besides obtaining the "A-Mark Quality Chinese Medicine Authentication Certificate" as a means of authenticating ingredients in certain of the Group's products, the Group's policy prefers to use manufacturers with HACCP and GMP accreditations enables the Group to get assurance based on the certificate of analysis supplied by such manufacturers that raw materials and ingredients used in manufacturing of the Group's products contain the purported ingredients as appeared in the products' packaging.

The Distribution Facilitator also launched a "Quality Compliance Program" in cooperation with IACM from 2008 to 2010 to test the quality of the health supplements sold in the Distribution Facilitator's stores (including some of the Group's proprietary brands products and the Distribution Facilitator's private label products supplied by the Group).

It is the Group's policy that all customer complaints should be dealt with promptly and seriously upon receipt. The Group's sales team is responsible for handling customers' complaints and answering questions in relation to the Group's products to ensure prompt responses to customers' concerns and to provide them with solutions. To better serve the Group's customers and deal with their complaints, the Group has set up a customer telephone hotline to enable the general public consumers to communicate any complaints or opinions in relation to the Group's products.

The Group received 49 and 60 complaints for each of the two years ended 31 March 2013, respectively. Those complaints mostly related to minor issues, which did not involve harmful substances found in the products or serious injuries or side effects caused by consuming the products or any other material consequences. Upon receiving the complaints, the Group's personnel promptly attend to and provide solutions, such as advising on the correct manner or usage of the products, exchange of products

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or refund. In 2007 there was an incident related to product recall. It involved 3 batches of Royal Medic No.1 Chinese Caterpillar Fungus (御藥堂西藏頭期野生純冬蟲夏草) because the microbial content were found to have exceeded the maximum permitted limit by the Department of Health. The Department of Health instructed the Group to recall the products from the market and to surrender them to the Department of Health. The product was discontinued in the year of 2008. During the Track Record Period, the Group did not carry out any product recall, and did not experience any return or exchange of products or make any compensation payment due to reasons related to any perceived side effects or the existence of harmful chemical or substance. Neither did the Group receive any complaint about quality or safety problems, which have caused any material adverse impact on its business or reputation.

INVENTORY AND WAREHOUSING

The Group's inventory comprises primarily raw materials, packaging materials and finished products. The Group's inventory level varies according to the demands of its distributors and customers as well as its marketing, sales and production plans.

The Group monitors its inventory level on a monthly basis in order to minimise the risk of inventory build up. The Group also conducts physical stock takes on a quarterly basis to ensure that its products are sold before their expiry dates. The Group generally seeks to maintain about three months supply of raw materials in inventory for unexpected orders. During the Track Record Period, the Group had not experienced any material shortage of inventory.

The Group stores its raw materials, packaging materials and finished products separately in the Group's warehouses located in the same building as the Group's headquarters in Kwai Chung, Hong Kong. It usually takes one to three days for the Group to deliver its products to its distributors or customers upon receipt of orders, depending on the workload of the day and the availability of stocks and logistics resources.

LOGISTICS

The Group's logistic team transports its products to its distributors and/or customers and delivers Counter Products to the SDCs and Royal Medic Chinese Medicine Clinics located within the Distribution Facilitator's stores. The Group also outsources its products delivery to logistics companies, which are Independent Third Parties when the Group receives a large order or when the logistics team has no further capacity to deliver certain orders.

Currently, there are two external local logistics companies, which the Group usually works with to deliver its products to its distributors and/or customers. The Group did not enter into any long term service contracts with these logistics companies.

The Group and/or the logistics companies engaged by the Group arrange the delivery of the Group's products by vans or trucks from the Group's warehouse to the stores/premises of the Distribution Facilitator or customers or a place within the territory of Hong Kong specified by the Distribution Facilitator or customers from time to time. Most of the transportation costs are borne by the Group. During the Track Record Period, the Group did not experience any material disruption in the delivery of its products and the Group did not suffer any loss or pay any compensation as a result of any delayed delivery of its products by the logistics companies engaged by the Group.

COMPETITION

There are a large number of health supplements and beauty supplements and products manufacturers, distributors and retailers in Hong Kong and overseas. The Group therefore faces intense competition in these markets. The Group's competition generally lies in brand recognition, business scale, sales network, product range and quality, marketing and price. Although some of the Group's major competitors may have a longer history and a bigger market share in the health supplements and beauty supplements and products markets than the Group, the Group has secured a significant market share through its marketing strategies, in particular by investing in advertising and developing its brands and products in Hong Kong market.

According to the industry research conducted by Ipsos, the Group's brand “御藥堂” (Royal Medic) ranked third in terms of sales value amongst all PCM health supplements sold in Hong Kong during 2012. In addition, the reports prepared by an independent global marketing research firm have concluded that Royal Medic CS-4 ranked first, in terms of sales value, in the Cordyceps market in Hong Kong for five consecutive years ended August 2013.

The Group believes that the recognition of its brand “御藥堂” (Royal Medic) by the general public consumers and its extensive sales network mainly through the Distribution Facilitator are key to its success and distinguish it from its competitors.

The Group also believes that brand recognition is an important contributing factor to consumers' decision to purchase. During the Track Record Period, the Group's sales of Royal Medic CS-4 accounted for a significant portion of the overall sales of its products under its brand “御藥堂” (Royal Medic). The Group believes that it has successfully built up a wide recognition of its brand “御藥堂” (Royal Medic) in Hong Kong as a result of its ongoing effort to market and promote its brand “御藥堂” (Royal Medic), including the advertisement of its products via various media channels and the engagement of well-known artistes in Hong Kong as its brand ambassadors.

In relation to the Group's health supplements, the Group faces competition from Hong Kong and foreign health supplements manufacturers and distributors. As the market grows and the customer segment diversifies, more players are expected to enter the Hong Kong market. Competitive factors impacting on the Group's health supplements include pricing, brand recognition, marketing and advertising.

The beauty supplements and products market is competitive and fragmented, and foreign brands hold dominating positions in Hong Kong. With regard to the Group's beauty supplements and products, the Group faces competition from Hong Kong and foreign beauty supplements and products manufacturers and distributors. The Group competes with these manufacturers and distributors based on efficacy, product recognition, marketing and advertising.

The Company currently has a product development committee whose role is to develop and evaluate new products. The product development committee which is made up of executives covering the functions of finance, sales, marketing, licensing, formulation, raw material sourcing, packaging and regulatory compliance.

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The Hong Kong public has become increasingly conscious about its health and body shape over the years and this has led to increased demand for health supplements and beauty supplements and products. Although there are manufacturers and distributors that offer similar products in Hong Kong and overseas, the Group believes that it has a competitive advantage over its direct competitors through its leading market position in the PCM health supplements market, its well-recognised brands, established sales network, superior product quality, broad and diversified product offerings and experienced management team. Please refer to the paragraph headed “Competitive Strengths” in this section of this prospectus for further details.

EMPLOYEES

As at 31 March 2012 and 2013, the Group had 137 and 130 employees, respectively. The following table sets out a breakdown of the Group’s employees by division as at the Latest Practicable Date:

Division	Number of employees
Management and Business Development	4
Sales	100
Marketing	14
Production and Logistics	14
Finance	7
Administration and Human Resources Management	16
Customer Service Department	4
Chinese Medicine Clinics	<u>8</u>
Total	<u><u>167</u></u>

For the two years ended 31 March 2013, the Group’s total staff costs were approximately HK\$35.3 million and HK\$36.8 million, respectively.

In order to enhance the quality of the Group’s workforce, the Group has implemented induction, continuing education and training programs for its staff. Newly recruited employees are required to attend an induction briefing, which covers topics such as the company’s profile, working environment, benefits and entitlements as well as disciplinary related matters. In addition, the Group provides training from time to time to its frontline sales promoters covering topics such as sales and customer service techniques, operational skills and orientation into the Group and the Group’s products. The Group’s sales controller will also visit the Distribution Facilitator store to observe and provide on-site training to the Group’s promoters in order to ensure that these promoters are equipped with the necessary skills. The Group holds monthly meetings with its promoters to discuss their sales performance in the previous month, their sales target in the coming month and to provide further training to them as and when it is necessary.

The Group makes contributions to the mandatory provident fund for all employees in compliance with the relevant laws and regulations in Hong Kong. The Group encourages its staff to take up further studies such as secretarial studies and the Group provides subsidies to those who enrolled in such

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further education. During the Track Record Period, the Group provided HK\$0.6 million housing allowance to some of its senior management. Some of the Group's employees from the sales department, marketing department and the Royal Medic Chinese Medicine Clinics are entitled to commission. In addition, all the promoters are entitled to commission based on the volume and type of products each individual sold. The Group reviews and adjusts the commission rates of its products from time to time. For the two years ended 31 March 2013, the amount of commission paid to the Group's staff was approximately HK\$8.4 million and HK\$9.7 million, respectively.

The Group maintains a good working relationship with its staff. The Group believes that its management policies, working environment and staff development opportunities and benefits have contributed to building good staff relations and retention. As at the Latest Practicable Date, the Group had not experienced any strike or labour dispute with its staff, which had a material effect on its business.

INTELLECTUAL PROPERTY RIGHTS

The Group's intellectual property rights are the key to the success of its business as it relies on consumers' recognition of its brands and products.

As at the Latest Practicable Date, the Group had 14 registered trademarks in Hong Kong, 17 registered trademarks in the PRC and one registered trademark in each of Japan and Singapore. The Group had submitted 12 applications for trademark registration in Hong Kong, three applications in the PRC and eight applications in other overseas countries. The Group's most valuable intellectual property is the “御藥堂” (Royal Medic) brand. The Group has registered/applied to register this trademark in Hong Kong and the aforesaid countries. The “御藥堂” (Royal Medic) trademark, which was registered in Hong Kong under class 5, was assigned by Able Island to Medalist in 2012 pursuant to a deed of assignment dated 28 March 2012. Under the deed, Able Island as assignor assigned to Medalist as assignee all rights and benefits under a trademark namely “御藥堂” at a consideration of HK\$1.00. In addition, the Group has registered its other trademarks such as “四時春” (Ever Spring), “Herballand”, “御藥堂中醫中藥坊” (Royal Medic Chinese Medicine Clinic), “HARUKA”, “Magimix” and “御藥堂 CS-4” (Royal Medic CS-4) in Hong Kong and “四時春”, “La Gusto” and “Kiwi Lab” in the PRC.

The Group's brand “御藥堂” (Royal Medic) is crucial to its business. If the Group is unable to adequately protect this trademark or if third parties were to make any intellectual property claims or legal actions against this trademark, the Group's business, operational results and financial condition may be materially and adversely affected. As at the Latest Practicable Date, the Group had not received any claim against it for infringement of any trademark and the Group is not aware of any pending or threatened claims in relation to any such infringement.

The Group has registered the following domain names: www.royalmedic.com.hk and www.royalmedic.com.

Further details of the Group's intellectual property is set out in the sub-paragraph headed “Intellectual property rights of the Group” of the paragraph headed “Further information about the business of the Group” in Appendix V to this prospectus.

AWARDS AND HONOURS

As a result of the high quality and strong reputation of the Group's products, creditworthiness and contribution to the community, the Group has been honoured with the following awards, authentication and recognition. The awards from The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council exemplify the Group's recognised position in the health supplements industry. The following table sets forth the major awards recently obtained by the Group:

Major award/ Authentication/Recognition	Year	Awarding Authority
Hong Kong Top Brand (香港名牌) for "Royal Medic" brand	2007	The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council
Mannings Health Beauty Awards (萬寧健 • 美大賞)	2008 to 2009	Mannings
Hong Kong Top Brand (香港名牌) for the Group's products: Cordyceps Sinensis, Golden Nesting Sliming Formula, Nesting Bust- beauty Formula, Nesting Body-purifying Formula, Detox Solution and Eye Clear and Cordyceps Sinensis with Chicken Essence	2008 to 2009	The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council
Hong Kong Top Brand (香港名牌) for the Group's products: Cordyceps Sinensis, Golden Nesting Sliming Formula, Nesting Bust- beauty Formula, Nesting Body-purifying Formula, Detox Solution, Eye Clear, Joint Well and Cordyceps Sinensis with Chicken Essence)	2009 to 2010	The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council
Most Popular Quality Chinese Medicine Brand (至愛優質中藥品牌)	2010	Hong Kong Chinese Medicine Industry Association
Mannings Health Beauty Awards for popular fruits and slimming food product — Kiwi Slim (萬寧健 • 美大賞人氣生果纖體食品獎 — 奇異瘦)	2010 to 2011	Mannings
Mannings Health Beauty Awards for popular slimming coffee product — Gusto Slim Coffee (萬寧健 • 美大賞人氣纖體咖啡獎 — Gusto特濃燒脂咖啡)	2010 to 2011	Mannings

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Major award/ Authentication/Recognition	Year	Awarding Authority
Hong Kong Top Brand (香港名牌) for the Group's products: Cordyceps Sinensis, Detox Solution, Eye Clear, Joint Well, Cordyceps Sinensis CS-4, Broken Ganoderma Spore, Liver Guard and Liver Whitening	2010 to 2011	The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council
Outstanding Executive of Healthcare Brand of Metro Radio Hong Kong Enterprise Leaders Choice (新城電台香港企業領袖之卓越行政人員保健品牌)	2011	Metro Radio
Hong Kong Top Brand (香港名牌) for the Group's products: Cordyceps Sinensis, Detox Solution, Eye Clear, Joint Well, Cordyceps Sinensis CS-4, Broken Ganoderma Spore, Liver Guard, Liver Whitening, Sugar Control 5.5 and Cardio Health	2011 to 2012	The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council
Hong Kong Premier Brand (香港卓越名牌) for the Group's products: Cordyceps Sinensis series, Ganoderma series, Functional series, Healthcare series	2011	The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council
Hong Kong Premier Brand (香港卓越名牌) for the Group's products: Cordyceps Sinensis series, Ganoderma series, Functional series, Healthcare series	2012	The Chinese Manufacturers' Association of Hong Kong and Hong Kong Brand Development Council
Consumer Caring Award presented to Royal Medic Holdings	2012	GS1 Hong Kong
Star Light Award for Royal Medic brand — The most popular premier brand amongst tourists visiting Hong Kong and Macau	2012	Chinese Media Network
“STC tested” Mark for the Group's products: Royal Medic CS-4, RM Broken Ganoderma Spore, L-Slim 24 (左旋肉鹼24) and Royal Medic Antrodia Camphorata Concentrated Essence (御藥堂芝皇活樟芝濃縮精華液)	2013 to 2014	Hong Kong Standards and Testing Centre

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LICENCES, APPROVALS AND APPLICATION

As at the Latest Practicable Date, the Group had obtained the following licences and approvals which are material to its operation:

Type of Licence	Purpose	Holder	Licence/Registration No.	Validity Period
Manufacture licence	Manufacture PCM	HK Ever Spring	PM-2004-00098	20 February 2012 to 19 February 2014
Wholesaler licence in Chinese herbal medicines	Conduct business in the wholesale of (Schedule 2) Chinese herbal medicines under section 115 of the Chinese Medicine Ordinance	Wisdom Health Products	CW-2008-00006	10 January 2012 to 4 March 2014
Wholesaler licence in PCM	Conduct business in the wholesale of PCM	Royal Medic Holdings	PW-2004-00259	17 February 2013 to 16 February 2015
		Wisdom Health Products	PW-2004-00260	16 March 2013 to 15 March 2015
		Apex Consultant	PW-2003-01007	16 March 2013 to 15 March 2015
		HK Ever Spring	PW-2004-00258	18 May 2013 to 17 May 2015
Retailer licence in Chinese herbal medicines	Conduct business in the retail of (Schedule 2) Chinese herbal medicines under section 114 of the Chinese Medicine Ordinance	Royal Medic Holdings	CR-2008-00636	3 November 2012 to 2 November 2014
Registration of Waste Producer	Waste disposal (chemical waste)	Royal Medic Holdings	6315-328-R2267-01	Since 10 August 2007
Registration as Food Importer/Food Distributor	Import and distribution of food	Royal Medic Holdings	TR-12-002686	1 March 2015
		Creation Chance	TR-12-002659	1 March 2015
		Kiwi Lab International	TR-12-002602	1 March 2015
		Sunny Regent	TR-12-002456	28 February 2015
		Eastern Bright	TR-12-002650	1 March 2015
		Health Proof International	TR-12-002644	1 March 2015
		M2C	TR-12-002664	1 March 2015
Wisdom Health Products	TR-12-003552	11 March 2015		
Registration of Royal Medic CS-4	To sell, import or possess any PCM	HK Ever Spring	HKNT-16492	26 March 2010 until application approved

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An application to register Royal Medic CS-4 as a PCM under the Chinese Medicine Ordinance has been lodged with the Department of Health under section 121 of the Chinese Medicine Ordinance and an application serial number HKNT-16492 (“**HKNT number**”) had been assigned to Royal Medic CS-4. As at the Latest Practicable Date, the registration procedure for Royal Medic CS-4 as a PCM under the Chinese Medicine Ordinance had yet to be completed and the Group had yet to obtain the relevant certificate of registration. A written confirmation has been received from the Department of Health confirming that a PCM assigned with a HKNT number is allowed to be sold in the market. As advised by the Hong Kong Legal Counsel, written confirmation from the Department of Health for the permission of sale of a PCM only having a HKNT number is sufficient to show that the Group is permitted to sell Royal Medic CS-4 and is in compliance with Section 119 of the Chinese Medicine Ordinance. Upon fulfilment of the safety, quality and efficacy requirements, the Chinese Medicines Board of Chinese Medicine Council of Hong Kong will approve the application and issue “Certificate of Registration of a PCM”, which contains a registration number of HKC-XXXXX to be printed on the packaging of the product.

It is advised by the Hong Kong Legal Counsel, upon examination of the documents and information submitted by the Group, the Department of Health is in the position to form the view that the product can be sold and a HKNT number can be issued to confirm that the product is in the process of registration pending the formal issuance of the certificate of registration. The Department of Health has authority to do so and is acting “intra-vires” and valid as it has examined the relevant documents and information before issuing a HKNT number.

As advised by the Hong Kong Legal Counsel, according to the letter dated 26 March 2010 from Department of Health regarding “Notice of confirmation of (non-transitional) registration application of PCM”, the packaging of the products may contain the HKNT number. Such number should not be a registration number and the packaging of the product should not imprint wordings of “proprietary Chinese medicine registration number” or “registration number” or other similar wordings. Apart from the above, there is no legal requirement for the package of Royal Medic CS-4 to indicate to the customers that this product is pending the registration. Having said so, the packaging of Royal Medic CS-4 does contain its HKNT number, which indicates that such product is in the process of registration and the Group has complied with all relevant regulatory requirements to indicate to the public the pending registration of Royal Medic CS-4.

To have valid course of action for product liability claim against Royal Medic CS-4, there has to be evidence of undesirable effect to the claimant. The Hong Kong Legal Counsel further advised that, based on (i) there is no evidence to suggest any undesirable effect to any person for not mentioning “Royal Medic CS-4 is pending the registration”; and (ii) there is no evidence that Royal Medic CS-4 has caused any unwanted side effect to any person, there will be unlikely to have any cause of action for product liability claims from the customers by reason of not fully informing this product is in the process of registration, and the risk of having product liability claims for not fully informing the customers that this product is in the process of registration should be extremely small.

The Group first lodged an application to register Royal Medic CS-4 with the Department of Health on 28 September 2009 and received the acknowledgement of such application from the Department of Health on 26 March 2010. The Group received first enquiry from the Department of Health in January 2012, and has from time to time received follow-up enquiries from the Department of Health in relation to the application. It was only until 25 January 2013 that the long-term toxicity test report for the

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purpose of the Royal Medic CS-4's application was confirmed to be required. A long-term toxicity test is a test to observe the toxic reaction of the tested subject after continuous administration of the test medicine for a period of time. In light of the requirement, the Group has appointed an accredited laboratory to prepare the report in January 2013 and according to the laboratory, such report is expected to be completed by end of June 2014. The Directors confirm that the Group has submitted all the relevant documents other than a long-term toxicity test report (長期毒性試驗報告) (the “**Report**”) required by the Department of Health for registration of the Royal Medic CS-4 as a PCM as at the Latest Practicable Date. The Group is required to submit to the Department of Health a report on the progress of the Report every three months and such requirement was waived by the Department of Health on 13 August 2013. As advised by the chief production officer of the Group, it is difficult to ascertain the expected date of obtaining the approval from the Department of Health as at the Latest Practicable Date.

Based on (i) the above confirmation from the Directors that apart from the Report, the Group has submitted all relevant documents; (ii) a confirmation from a Chinese medicine practitioner that there was no toxicity to the orally consumed Royal Medic CS-4 based on the reasons that the component and function of Royal Medic CS-4 and one of the products mentioned in the Chinese Pharmacopoeia are the same and the recommended dosage and component of each capsule of the Royal Medic CS-4 are lower than such product; (iii) the fact that no medical complaint against Royal Medic CS-4 was raised by consumers since the product was launched in the market in 2008 and; (iv) no evidence to suggest any problem in the application for registration, the Hong Kong Legal Counsel advised that there is no legal impediment to obtaining the approval for registration of Royal Medic CS-4 as a PCM.

The Hong Kong Legal Counsel further advised that the Group will not retrospectively be subject to any fine or penalty for the sale of Royal Medic CS-4 before Royal Medic CS-4 has completed the registration as PCM as the current HKNT number issued by the Department of Health allowed such product to be sold legally in Hong Kong. For the same reason, the Group's sales of Royal Medic CS-4 before registration as a PCM are legal.

The registration process of a proprietary Chinese medicine (pCm) product appears to take a long time. According to the information disclosed in the progress report from the Business Facilitation Advisory Committee — Wholesale and Retail Task Force¹ that since the system of registration of pCm was established on the 19 December 2003, the Chinese Medicine Board has as at February 2012 received 17,280 applications for registration of pCm of which the number of Notice of confirmation of registration issued under Transitional and Non-transitional types of applications were 9,110 and 2,150 respectively. The progress report also mentioned that up to February 2012 only 200 “Certificate of Registration of pCm” were issued. As to the balance, they were either rejected applications or applications under processing to obtain the Notice of confirmation of registration.

According to the information disclosed in Chinese Medicine Council of Hong Kong website, as of 19 September 2013, the Chinese Medicine Board has issued 368 “Certificate of Registration of pCm”, and the number of Notice of confirmation of registration issued under Transitional and Non-transitional types of applications were 8,676 and 721 respectively.

¹ The Business Facilitation Advisory Committee is under the Economic Analysis and Business Facilitation Unit of the Financial Secretary's office.

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Given the large number of applications remaining under the Notice of confirmation of registration waiting for approval, the Group considers that it is the industry (Chinese medicine) norm for the prolonged registration.

In the event that the Group fails to obtain the PCM certificate of registration of Royal Medic CS-4, the Group may breach the long-term agreement with the PRC supplier and subject to potential compensation amount, which is estimated to be approximately HK\$37.3 million. Please refer to the section headed “Business — suppliers” on page 124 of the prospectus for further details.

EXPANSION INTO TAIWAN MARKET

The Group believes that the Group’s products are generally popular in Chinese communities and the expansion into a new market will enable the Group to increase its sales and raise awareness of its brands and products among Chinese communities outside of Hong Kong. Pursuant to the long term expansion plan of the Group to develop new markets, the Group observes the competitive landscapes in such Chinese communities. The Group also analysed the health and beauty supplements market in Taiwan by (i) holding discussions with various distribution facilitators/ a manufacturer; (ii) visiting various distribution facilitators’ stores; (iii) obtaining legal advice to understand the relevant rules and regulations; and (iv) conducting market research.

According to Ipsos, the total retail sales of health supplements market in Taiwan increased from approximately NT\$42.4 billion (equivalent to approximately HK\$10.9 billion) in 2007 to approximately NT\$62.1 billion (equivalent to approximately HK\$16.0 billion) in 2012, at a CAGR of about 8%. Aging population, changing lifestyle and raising health awareness in Taiwan has turned health supplements into a necessity product. It is expected that the total retail sales of health supplements market in Taiwan will continue to grow at CAGR of approximately 10.5% from 2013 to 2015. Increasing health concern of the Taiwanese, driven by the belief of prevention is more important than treatment will further drive the future development of health supplements in Taiwan. Having considered that the high potential of the Taiwan health supplements market, the Group has decided to enter into the Taiwan market.

The Group has established an indirect wholly-owned subsidiary in Taiwan on 19 March 2013, namely, Wisdom Healthcare Co., Ltd. (盈智健康事業有限公司), with a paid up capital of NT\$10,000,000 (equivalent to approximately HK\$2.8 million). Like the business model adopted in Hong Kong under which the Group outsources most of its production to its suppliers and subcontracting manufacturers and distributes its products mainly through the Distribution Facilitator, the Group will adopt the same business model in Taiwan by outsourcing the production and engaging a large health and beauty store chain in Taiwan as its distribution facilitator. To this end, the Taiwan subsidiary entered into a trading terms agreement (the “**Taiwan Trading Terms Agreement**”) with a major distribution facilitator in Taiwan (the “**Taiwan Distribution Facilitator**”) in May 2013. The Taiwan Distribution Facilitator has over 480 stores across Taiwan. Leveraging on the extensive retail network of the Taiwan Distribution Facilitator throughout Taiwan, the Group believes that it will be able to target its products at different consumer groups in most of the areas in Taiwan.

By executing the Taiwan Trading Terms Agreement, the Group’s products are displayed and sold on the retail shelf space of the Taiwan Distribution Facilitator’s stores in Taiwan. The Taiwan Trading Terms Agreement is effective from May 2013 until 31 December 2013 and will be renewed on an annual basis. Pursuant to the Taiwan Trading Terms Agreement, (i) the products of the Group are distributed exclusively through the Taiwan Distribution Facilitator in Taiwan; (ii) the Taiwan

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Distribution Facilitator can only distribute the Group's products in the stores of the Taiwan Distribution Facilitator in Taiwan; and (iii) the Taiwan Distribution Facilitator has the right to return goods to the Group (including any damaged or unsold products). In practice, the Group will grant a credit term of up to 120 days to the Taiwan Distribution Facilitator. The Group received its first purchase order from the Taiwan Distribution Facilitator in June 2013. The Taiwan Trading Terms Agreement does not provide for any minimum purchase order quantities. The Taiwan Trading Terms Agreement is in a standard-form used by the Taiwan Distribution Facilitator, which is for the period from 1 January 2013 to 31 December 2013, and will be renewed annually.

The production of the Group's products are undertaken by a manufacturer in Taiwan, which is accredited with GMP certification, ISO 22000:2005 and ISO2008 (CNS12681). Currently, the Taiwan manufacturer of the Group's products processes raw materials in powder form and undertakes the following significant processes of (i) procurement raw materials; (ii) carrying out internal safety tests on the raw material inwards; (iii) encapsulation; (iv) primary packaging; (v) secondary packaging; and (vi) internal quality control procedures and to issue certificate of analysis. To control and assure the quality of the Group's products, the Taiwan manufacturer is required to submit samples from each batch of the manufactured products to an accredited testing laboratory appointed by the Group for quality testing. Test results are reported to the Group, which the Group would in turn submit to the Taiwan Distribution Facilitator.

At the early stage of market development, the Group would introduce its best-selling product, namely, Royal Medic CS-4, as the Group believes that it will be popular in Taiwan. Royal Medic CS-4 is the Group's first product launched in Taiwan.

The Group engaged an existing manufacturer (the "**Taiwan Supplier**") of the Group to manufacture Royal Medic CS4 in Taiwan. The Group is required to pay a deposit to the Taiwan Supplier upon confirmation of the orders, full advance payments are required. Payments are made by bank transfer.

The Group also places emphasis on the marketing and promotion of "Royal Medic" brand in Taiwan. The Group plans to (i) participate in promotional events organised by the Taiwan Distribution Facilitator; (ii) through its Taiwan wholly owned subsidiary, Wisdom Healthcare Co., Ltd. to employ promoters to station at selected stores of the Taiwan Distribution Facilitator; (iii) engage brand ambassadors well-known amongst the Taiwanese consumers; and (iv) carry out marketing activities such as publishing advertisement through various media and channels. The aforesaid marketing and promotional activities, such as celebrity endorsements, television commercials and print advertisements, will be formulated and implemented solely by the Group at its own expense. The Group plans to apply its net proceeds of approximately HK\$35 million to promote "Royal Medic" brand in overseas market in which approximately HK\$8.1 million and HK\$11.1 million will be spent for the year ending 31 March 2014 and 2015, respectively, to promote Royal Medic brand in Taiwan. For details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

As at the Latest Practicable Date, the Group has employed 22 staff and is in the process of recruiting experienced staff, in the health and beauty supplements field to run the Taiwan operations.

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The maximum working capital requirement for the operations in Taiwan for the two years ending 31 March 2015 is expected to be under HK\$10 million. The budgeted capital expenditure is expected to be approximately HK\$1 million. Both the working capital requirement and capital expenditure will be funded by internally generated cash flow. In general, the Group is targeting the Taiwan operations to breakeven or become profitable in the second full financial year after its establishment.

LITIGATION AND COMPLIANCE

Undesirable Medical Advertisements Ordinance

For the period from 6 August 2010 up to 17 January 2013, the Group had received a total of 43 warning letters from the Department of Health notifying the Group that certain advertisements and packaging of the Group's products might contravene sections 3 and/or 3B of the UMAO due to certain restricted words being used in the advertisements and on the packaging of the Group's products, details of which are set out below:

Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
1	6 August 2010	Royal Medic CS-4	Advertisement published on Next magazine dated 29 July 2010	Section 3 of the UMAO — schedule 1 item 5 (any respiratory disease)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
2	30 August 2010	Royal Medic Ladies Health Tea Therapy	Leaflet	Section 3 of the UMAO — schedule 2 item 1 (The induction of menstruation or relief of amenorrhea or delayed menstruation or any other gynaecological or obstetrical disease)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
3	12 November 2010	Royal Medic Sugar Control 5.5	Advertisement published on Oriental Daily dated 5 November 2010	Section 3 of the UMAO — schedule 1 item 12 (Any endocrine disease)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement

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Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
4	9 December 2010	RM Broken Ganoderma Spore	Advertisement on the internet	Section 3 of the UMAO — schedule 1 item 8 (Any disease of the nervous system)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
		Royal Medic CS-4	Advertisement on the internet	Section 3 of the UMAO — schedule 1 item 10 (Any disease of the blood or lymphatic system)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
		Royal Medic Chinese Caterpillar Fungus	Advertisement on the internet	Section 3 of the UMAO — schedule 1 item 6 (Any disease of the heart or cardiovascular system); and item 9 (Any disease of the genitourinary system)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
5	18 April 2011	Kiwi Balancing Control	Advertisement published on Oriental Daily dated 8 April 2011	Section 3 of the UMAO — schedule 1 items 6 (Any disease of the heart or cardiovascular system) and 12 (Any endocrine disease)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
6	12 July 2012	Royal Medic Prostate Care	Advertisement published on Apple Daily dated 17 June 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement

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Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
7	18 July 2012	Royal Medic Sugar Control 5.5	Advertisement published on The Sun dated 29 June 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
8	1 August 2012	Royal Medic Sugar Control 5.5	Advertisement published on the “Headline” newspaper dated 13 July 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
9 and 10	2 August 2012 and 7 August 2012	Royal Medic Prostate Care	Advertisement published on Apple Daily dated 15 July 2012 and Oriental Daily dated 20 July 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
11	31 August 2012	Kiwi Balancing Control	Packaging	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Removed the subject wordings in the packaging

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Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
12 and 13	7 September 2012 and 10 October 2012	Royal Medic Prostate Care	Packaging	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Removed the subject wordings in the packaging
14 to 17	14 September 2012 (4 warning letters)	Royal Medic Prostate Care	Advertisement on the internet	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems) and item 6 (Regulation of blood lipids or cholesterol)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in the internet
		Royal Medic Sugar Control 5.5	Advertisement on the internet	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in the internet

BUSINESS

Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
		Royal Medic CS-4	Advertisement on the internet	Section 3 and/or 3B of the UMAO — schedule 1 item 6 (Any disease of the heart or cardiovascular system) and item 11 (Any disease of the musculo-skeletal system), schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems), item 3 (Regulation of the endocrine system and/or maintenance or alteration of hormonal secretions) and item 5 (Regulation of blood pressure)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in the internet
		Royal Medic Cardio Health	Advertisement on the internet	Section 3 and/or 3B of the UMAO — schedule 4 item 6 (Regulation of blood lipids or cholesterol)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in the internet

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Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
		RM Broken Ganoderma Spore	Advertisement on the internet	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in the internet
18	15 October 2012	Kiwi Slim Men	Packaging	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Removed the subject wordings in the packaging
19	15 October 2012	Gold Kiwi Slim	Packaging	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Removed the subject wordings in the packaging
20	1 November 2012	RM Broken Ganoderma Spore	Advertisement published on the “Headline” newspaper dated 13 July 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in the internet

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Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
21	6 November 2012	Royal Medic Cardio Health	Packaging	Section 3 and/or 3B of the UMAO — schedule 4 item 6 (Regulation of blood lipids or cholesterol)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Removed the subject wordings in the packaging
22 to 30	15 November 2012 (one warning letter) and 19 November 2012 (8 warning letters)	Kiwi Lab Magic Mix	Advertisements published on the Apple Daily dated 1, 8, 10, 15 and 17 June 2012, 2 and 22 July 2012 and TVB magazine dated 4, 11 June 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
31	20 November 2012	Royal Medic Sugar Control 5.5	Advertisements published on the Apple Daily dated 28 October 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
		Royal Medic Urate Control	Advertisements published on the Apple Daily dated 28 October 2012	Section 3 and/or 3B of the UMAO — schedule 1 item 11 (Any disease of the musculo-skeletal system)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
32	26 November 2012	Royal Medic CS-4	Advertisement published on the “Headline” newspaper dated 10 November 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement

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Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
33	26 November 2012	Royal Medic Urate Control	Advertisement	Section 3 and/or 3B of the UMAO — schedule 1 item 11 (Any disease of the musculo-skeletal system)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
34	28 November 2012	Royal Medic Sugar Control 5.5	Packaging	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Removed the subject wordings in the packaging
35	28 November 2012	Royal Medic Urate Control	Packaging	Section 3 and/or 3B of the UMAO — schedule 1 item 11 (Any disease of the musculo-skeletal system)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Removed the subject wordings in the packaging
36 to 38	29 November 2012 (3 warning letters)	Royal Medic CS-4	Advertisements	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement

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Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
39	29 November 2012	Royal Medic Prostate Care	Advertisement published on the "Headline" newspaper dated 10 November 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
40 and 41	11 December 2012 (2 warning letters)	RM Broken Ganoderma Spore	Advertisement published on the Apple Daily dated 24 June 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
		Royal Medic Prostate Care	Advertisement published on the Apple Daily dated 24 June 2012 and Hong Kong Daily News dated 5 August 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement

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Ref. no.	Date of warning letter	Product name	Advertisement or packaging involved	Details	Potential maximum amount of penalties/fines and consequences and impact on the Group	Follow up action
42	12 December 2012	Royal Medic Urate Control	Advertisement published on The Sun dated 18 November 2012	Section 3 and/or 3B of the UMAO — schedule 1 item 11 (Any disease of the musculo-skeletal system)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
		Royal Medic Sugar Control 5.5	Advertisement published on The Sun dated 18 November 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 4 (Regulation of body sugar or glucose and/or alteration of the function of the pancreas)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement
43	17 January 2013	Royal Medic CS-4	Advertisement published on the “Headline” newspaper dated 28 December 2012	Section 3 and/or 3B of the UMAO — schedule 4 item 2 (Regulation of the function of the genitourinary system and/or improvement of symptoms of genitourinary problems)	A fine of HK\$100,000 and imprisonment for 1 year for each offence	Ceased to use the subject wordings in future advertisement

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Also, the Group has been fined for the following summonses during the Track Record Period:

Date of Summons	Company named as Defendant	Product name	Offence	Penalty
17 April 2010	Royal Medic (Holdings) Limited 御藥堂(控股)有限公司	Royal Medic Eye Clear (御藥堂護眼清)	Sections 3 of the UMAO	Fine HK\$1,500
12 August 2010	M2C Natural Health Limited	Herballand Cranberry Extract (康寶蘭小紅莓淨配方)	Section 3 of the UMAO	Fine HK\$1,800
12 August 2010	M2C Natural Health Limited	Herballand Bilberry Extract (康寶蘭藍莓花青素)	Section 3 of the UMAO	Fine HK\$1,800
12 August 2010	M2C Natural Health Limited	Herballand Green Balance (康寶蘭蔬果營養素) Herballand FDA Fiber Detox Agent (康寶蘭FDA 便便排毒素)	Section 3 of the UMAO	Fine HK\$1,800
28 August 2010	Royal Medic (Holdings) Limited 御藥堂(控股)有限公司	Royal Medic Liver Guard (御藥堂淨肝健)	Section 3 of the UMAO	Fine HK\$2,000

In relation to the previous breaches of UMAO, the Directors have confirmed that the suggestions of the Department of Health relating to wording on advertisements and packaging had been complied with. As advised by the Hong Kong Legal Counsel, there will be no further legal consequence in the future apart from the application of section 6 of UMAO, which stipulates a heavier maximum penalty for subsequent offences, namely, that any person who contravenes the provisions of section 3 or 3B shall be guilty of an offence and shall be liable upon a first conviction to a fine of HK\$50,000 and imprisonment for six months and upon a second or subsequent conviction to a fine of HK\$100,000 and imprisonment of one year. As the Group had been convicted of section 3 of UMAO in the past, the maximum penalty for subsequent offence (if any) would be a fine of HK\$100,000 and imprisonment for one year. The total potential maximum amount of penalties/fines and liabilities arising from all of the 43 warning letters is approximately HK\$4.3 million. Based on the fact that the Group has either complied with the warning letters or discontinued the relevant products and a long time had lapsed and no charge had been laid by the Department of Health on the Group for such warning letters, the Hong Kong Legal Counsel advised that it is remote for the Group to pay such maximum penalty.

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Save and except the above, the Group had not been penalised in relation to its advertisements and packaging pursuant to the UMAO during the Track Record Period and up to the Latest Practicable Date.

Legislations in relation to pharmaceutical products and medicines

As advised by the Hong Kong Legal Counsel, whenever a product is offered for sale that is claimed to have “medicinal effects”, it may be classified as a pharmaceutical product and medicine (“PP/M”). PP/M products are required to be registered with the Department of Health and are subject to various legislation in relation to pharmaceutical products and medicine in Hong Kong. For details of the relevant laws and regulations, please refer to the section headed “The Laws and Regulations Relating to the Industry” in this prospectus. As confirmed by the Directors, none of the Group’s products was registered with the Department of Health as a pharmaceutical product at the Latest Practicable Date.

Some of the wording on the historical packaging, labels and/or inserts of the Group’s products may amount to claims of having “medicinal effects”. As advised by the Hong Kong Legal Counsel, in relation to these historical packaging, labels and/or inserts, in theory the Department of Health can press charges under the Pharmacy and Poisons Ordinance (Chapter 138, the Laws of Hong Kong) (the “**Pharmacy and Poisons Ordinance**”), the Pharmacy and Poisons Regulations (Chapter 138A, the Laws of Hong Kong) (the “**Pharmacy and Poisons Regulations**”) and the UMAO. The Hong Kong Legal Counsel, based on his qualification, experience and understanding of the development in the legal and pharmaceutical fields, advised that the Department of Health usually would not press charges in relation to historical packaging, labels and/or inserts of products. If the Department of Health is concerned about current packaging, labels and/or inserts of particular products, it would firstly issue a warning letter. It usually would not press any charge if the suggestions in the warning letters are complied with. Therefore, the Hong Kong Legal Counsel opined that the likelihood of the Group being charged in relation to wording on historical packaging, labels and/or inserts of the Group’s products is slim.

Having taken into account the advice of the Hong Kong Legal Counsel, the Group has revised the packaging, labels and/or inserts of the products concerned. The Hong Kong Legal Counsel opined that, upon changing the wording on the packaging, labels and/or inserts of the relevant products as advised, the Group’s products are unlikely to be regarded as PP/M within the Pharmacy and Poisons Ordinance and therefore are unlikely be subject to the Pharmacy and Poisons Ordinance and the Pharmacy and Poisons Regulations. He further opined that the revised packaging, labels and/or inserts of the Group’s products are likely to comply with UMAO.

Companies Ordinance

Certain Hong Kong subsidiaries of the Company failed to lay the audited accounts in annual general meetings within the time limit specified under section 122 of the Companies Ordinance during the financial years from 2003 to 2011 and failed to make timely filings in relation to certain company secretarial matters with the Companies Registry of Hong Kong. The aforesaid failure was due to the unintended and inadvertent oversights of the time limit requirements under the relevant sections of the Companies Ordinance made by an employee of the Group who was responsible for company secretarial and accounting matters at the material times.

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In respect of the failure to lay the audited accounts, applications were made to the High Court of Hong Kong for extension of time to rectify the non-compliance and court orders were granted on 1 November 2012. As a result of the laying of such audited accounts in annual general meetings within the extended time granted by the court, such non-compliance was rectified and no potential liability and/or fine is expected to be imposed on the Group.

Regarding the failure to make timely filings in respect of company secretarial matters, the Company has subsequently made filings to fulfil the filing requirements. A company and its respective officers who are in default are liable for a fine of HK\$10,000 to HK\$50,000 and a daily default fine of HK\$300 or HK\$700 for each late filing. The aggregate amount of the potential fine for the aforesaid late filings is estimated to be approximately HK\$3,627,000. As at the Latest Practicable Date, there had not been any prosecution initiated against the relevant subsidiaries of the Company, nor had it been subject to any fine relating to the above disclosed late filings. However, there is no assurance that the Companies Registry will not take action against the relevant subsidiaries of the Company in the future in respect of any of the above. As advised by the Hong Kong legal advisers of the Company, the practical risk of various subsidiaries of the Company in Hong Kong being prosecuted for their late filings concerning company secretarial matters cannot be ascertained with certainty. The Companies Registry is delegated with the authority to prosecute companies in Hong Kong for failure to comply with filing requirements under the Companies Ordinance and it is the Companies Registry's decision whether to prosecute any particular case. Based on the experience of the Hong Kong legal advisers of the Company, the Companies Registry does not, in all cases, prosecute failure to make timely filings in respect of company secretarial matters. The Directors believe that the likelihood of the Company being penalised is remote. As a result, the Company has not made provision in respect of the approximately HK\$3.6 million potential fine for the aforesaid late filing. To mitigate this risk, the Group has obtained an undertaking from the Controlling Shareholder(s) to indemnify the Group as described in the following paragraph headed "Inland Revenue Ordinance". Moving onwards, the Group will strictly monitor the timeline for all required filing and/or attachment of reports to ensure compliance with the Companies Ordinance in future.

Inland Revenue Ordinance

In 2011, two Hong Kong subsidiaries of the Group failed to file tax returns within a specified period and contravened section 51(1) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong). The relevant tax returns were subsequently filed and a fine of HK\$2,300 was imposed upon each of the said subsidiaries and tax penalties in the total amount of HK\$285,000 was paid to Inland Revenue Department. The fine of HK\$2,300 and the tax penalties of HK\$285,000 have been duly paid by the said subsidiaries. As advised by the Hong Kong legal advisers to the Company, upon payment of the fines and filing of the relevant tax returns, the court order was duly complied with and no further penalty is expected to be imposed on the Group for such failure.

The Group's accounts department is in charge of the filing tax returns to the Inland Revenue Department. According to the recommendations in the internal control report issued by CCIF Corporate Consultancy Limited, a tax compliance policy was adopted by the Group. Please refer to the section headed "Business — Measures to ensure future compliance" on page 173 of the prospectus for further details.

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Save as disclosed above, during the Track Record Period and as at the Latest Practicable Date, the Group had not been subject to any material legal or administrative proceedings, and the Group is not aware of any threatened material legal or administrative proceedings arising in the ordinary course of its business.

The Controlling Shareholders entered into a deed of indemnity whereby Able Island agreed to indemnify the Group and Mr. Chan agreed to guarantee the performance of Able Island, subject to the terms and conditions in the deed of indemnity, the liabilities which may be made against any member of the Group arising from any failure in complying with the regulatory requirements under the Companies Ordinance and various legislations in relation to PP/M in Hong Kong. Further details of the deed of indemnity are set out in the paragraph headed “Tax and other indemnities” in Appendix V to this prospectus.

INTERNAL CONTROL REVIEW

The Group has engaged CCIF Corporate Consultancy Limited to conduct an internal control review. The scope of the review covered the following areas:

- Entity Level Control which includes (i) Control Environment; (ii) Risk Assessments; (iii) Monitoring and Control; (iv) Information & Communication; and (v) Whistle Blowing Policy.
- Financial Reporting and Disclosure Internal Control which includes (i) Financial organization structure; (ii) Accounting Policies and Procedures; (iii) Financing Closing; (iv) Reporting and Disclosure; (v) Financial Budgeting; and (vi) Taxation.
- Internal Control over Business Processes/operations which includes (i) Revenue and distribution (Direct Sales, Consignment Sales and Promotion Sales); (ii) Purchase, Expenditure and Accounts Payable; (iii) Inventory; (iv) Human Resources & Payroll; (v) Fixed Assets; (vi) Production Management; (vii) Cash Management and Treasury; (viii) Related party transactions; (ix) Intangible Assets; (x) General Computer Controls; and (xi) Business Continuous plan.

Measures, such as the formation of the compliance team, and adoption of the Companies Ordinance compliance policy and tax compliance policy have been put in place to ensure the Group meets its public reporting obligations. Relevant persons were appointed including the Compliance Officer to lead the compliance team and the CFO to oversee the financial matters of the Group.

MEASURES TO ENSURE FUTURE COMPLIANCE

The Group has adopted and implemented the following corporate governance and internal control measures to enhance the internal control systems and to ensure compliance with applicable regulatory requirements:

1. The Group has appointed Mr. Foo Chi Ming, an executive Director, as Compliance Officer. Mr. Foo is responsible for, *inter alia*, the oversight of compliance with the Group’s Companies Ordinance compliance policy and tax compliance policy. Mr. Foo leads the compliance team and is a member of the product labeling committee and product development committee.

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2. The Group has appointed Mr. Yan Tat Ming as chief production officer who has been registered as a pharmacist since 1992 and has over 12 years of experience in the pharmaceutical field. Mr. Yan is responsible for production and quality assurance.
3. To prevent recurrence of the late tax filings, the Group has appointed Ms. Mak Mei Kuen as Chief Financial Officer and company secretary. Ms. Mak is a member of the Institute of Certified Public Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and has over 13 years of experience in the financial and accounting field. Ms. Mak is responsible for financial and daily secretarial matters of the Group.
4. The Group has set up a compliance team, which comprises 3 members and the compliance team will report directly to the Board. The compliance team is led by the compliance officer and its members include the administrative controller and the quality assurance manager. Please refer to the paragraph headed “Quality Control” under the section headed “Business” and section headed “Directors, Senior Management and Staff” for the details of the qualifications and experiences of the compliance team members. The compliance team is responsible for reviewing the internal control procedures as well as to ensure that such procedures are followed including on-going regulatory compliance.
5. The Group has set up a product labeling committee, which comprises 5 members. The product labeling committee is led by the chief production officer and the members include the Compliance Officer, the sale controller, the marketing controller and the quality assurance manager. The product labeling committee is responsible for reviewing and approving advertisements, products packaging, labels, inserts and advertisements of the Group’s products.
6. The Group has engaged the Hong Kong Legal Counsel to review all the packaging and inserts of the Group’s products since January 2012. The Hong Kong Legal Counsel was not engaged to review advertisements. The Group had revised the packaging and inserts of the then existing products in accordance with the comments from the Hong Kong Legal Counsel and arranged to change the packaging and inserts of the then existing products in the market, where applicable.

Starting from January 2012, before the launch of any new product to the market, the Group has provided and will continue to provide all the product packaging and inserts of such new product to the Hong Kong Legal Counsel for review.

The Hong Kong Legal Counsel was registered as a pharmacist in 1981 and became a barrister-at-law in 1986. He had sat as a temporary magistrate at Western Magistracy and Kwun Tong Magistracy. He had worked in the prosecutions division of the Department of Justice for 11 years. He is now in private practice at Cheng Huan S.C. Chambers.

7. According to the recommendations in the internal control report issued by CCIF Corporate Consultancy Limited, the Group has implemented a regulatory compliance checklist for product labeling and strengthened the internal control procedures over the review and approval of product labeling and advertising.

8. The Group has implemented the following compliance guidelines and policies which cover:
- (a) The Group first adopted in January 2012 compliance guidelines on product labeling and advertisements to provide specific guidance to the staff in ensuring compliance with relevant laws and regulations, namely the UMAO and the Trade Description Ordinance, *inter alia*. The compliance guidelines on product labeling and advertisements were revised and the revision was adopted in January 2013 to address the amendments to the UMAO, which became effective in June 2012. The compliance guidelines on product labeling and advertisements were further revised and the revision was adopted in July 2013 to address the amendments to the Trade Descriptions Ordinance, which became effective on 19 July 2013.

According to the January 2012 compliance guidelines on product labeling and advertisements, the responsibility for approving product labeling was vested with the product labeling committee, and responsibility for approving advertisements was vested with the Group's marketing department.

The January 2013 revision of the compliance guidelines on product labeling and advertisements was aimed at to further strengthen the internal control system of the Group to comply with the tightened enforcement practice of the Department of Health. From January 2013, all the products labeling and advertisements shall be approved by the products labeling committee.

Before January 2013, the responsibility for approving product labeling to comply with relevant laws and regulations was vested with the product label committee, and the responsibility for approving advertisements to comply with relevant laws and regulations was vested with the Group's marketing department. From January 2013, the responsibilities for approving product labeling and advertisements were vested with the product labeling committee.

In July 2013, the Group updated the compliance guidelines on product labeling and advertisements in response to the amendments to the Trade Descriptions Ordinance, which, *inter alia*, covers the following laws and regulations:

- (i) the UMAO;
- (ii) Pharmacy and Poisons Ordinance (Chapter 138, the Laws of Hong Kong);
- (iii) Chinese Medicine Ordinance (Chapter 549, the Laws of Hong Kong);
- (iv) Trade Marks Ordinance (Chapter 559, the Laws of Hong Kong);
- (v) Trade Descriptions Ordinance (Chapter 362, the Laws of Hong Kong) (as amended on 19 July 2013);
- (vi) Chinese Medicine Regulations (Chapter 549F, the Laws of Hong Kong);

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- (vii) Public Health and Municipal Services Ordinance (Chapter 132, the Laws of Hong Kong); and
 - (viii) Import and Export Ordinance (Chapter 60, the Laws of Hong Kong).
- (b) A Companies Ordinance compliance policy was adopted by the Group to provide specific guidance to our staff in ensuring compliance with the Companies Ordinance. Such guidelines were prepared by the company secretary and will be subject to regular review by the Board.
 - (c) A tax compliance policy was adopted by the Group to provide specific guidance to the Group's staff in ensuring compliance with the Inland Revenue Ordinance (Chapter 112, laws of Hong Kong). Such guidelines were prepared by the chief financial officer and will be subject to regular review by the Board. In addition, the Group has engaged a tax adviser to handle matters concerning the Group's tax filings and continue to retain the tax adviser.
9. In response to the amendments to the Trade Descriptions Ordinance (the "**Amendments**"), which became effective on 19 July 2013, the Group had implemented various measures in ensuring compliance with the amended Trade Descriptions Ordinance, including without limitation:
- (a) The product labeling committee studied the publication materials in respect of the Amendments issued by the Custom and Excise Department including the Enforcement Guidelines for the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012. In response to such enforcement guidelines, the product labeling committee created and would maintain a dossier for each existing and future product, in which the Group would file verification materials supporting the wordings used and claims made on the packaging, inserts and advertisements of the product concerned;
 - (b) The product labeling committee arranged the Group's relevant staff to attend a seminar organised by Hong Kong Retail Management Association in respect of the Amendments; and
 - (c) In accordance with the provisions of Amendments, the products labeling committee reviewed all the then existing products to ensure compliance in respect of packaging, inserts and advertisements. To enhance the Group's internal controls, the Group will engage the Hong Kong Legal Counsel and/or other qualified external legal professional to review the advertisements of its products before their publication. Where changes to the packaging and inserts are necessary, the changes will be reviewed by the Hong Kong Legal Counsel.
10. Each of the Directors and the senior management of the Group has received and reviewed a memorandum prepared by the Hong Kong legal adviser of the Company and have attended a training session conducted by the Hong Kong legal adviser regarding the responsibilities and duties of Directors and senior management.

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TRADE DISPUTE

Before the engagement of the Distribution Facilitator in 2005, the Group's products were sold through a local retail chain (the "**Retail Chain**"). There was an incident about a dispute between the Group and the Retail Chain. In or around 2007, the Retail Chain sold their stocks of the Group's products on a very substantial discount. The Group attempted by way of injunction to stop the Retail Chain from selling its products at their stores in Hong Kong. An injunction order was granted by the court for a short period of time. Subsequently, the parties had consented to dismiss the case at the end of 2007. The dispute did not have material impact on the Group's operations and future relationship with the Retail Chain.

COUNTERFEIT PRODUCTS

During the Track Record Period, the Group did not experience any claim of infringement of its intellectual property rights, including incidents involving counterfeit and imitation of its products, which had a material effect on its business.

INSURANCE

The Group maintains insurance policies such as the policy on employees' compensation, property all risks insurance on stocks of health food products and malpractice liability insurance for services offers at the Royal Medic Chinese Medicine Clinics. In addition, as a supplier to the Distribution Facilitator, the Group is covered by the products liability insurance maintained by the Distribution Facilitator including legal liability to pay compensation for third party bodily injury, death, illness or disease or for damage to third party property arising through or in connection with any products or goods thereof which have been manufactured, sold, distributed or supplied by the Group.

During the Track Record Period, the Group did not experience any insurance claims and did not receive any claims regarding the safety and quality of its products, which were material to the Group. For details of the risk relating to the Group's insurance coverage, please refer to the paragraph headed "The Group has limited insurance coverage, and any claims beyond the Group's insurance coverage may result in the Group incurring substantial costs and a diversion of resources" in the section headed "Risk Factors" in this prospectus.

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PROPERTY

Self-owned properties

As at the Latest Practicable Date, the Group owned and occupied the following real properties:

Location	Owner	Gross floor areas (square feet)	Usage
Workshops 1–4, 21st Floor, Man Shing Industrial Building, 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	Rich Sunny	7,325	Office
Workshop 3, 22nd Floor, Man Shing Industrial Building, 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	Rich Sunny	1,596	Packaging workshop
3rd Floor, Man Shing Industrial Building, 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	Rich Sunny	7,042	Warehouse and workshop
Workshops 3 and 4, 5th Floor, Man Shing Industrial Building, 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	Rich Sunny	3,061	Warehouse
Workshop 3, 23rd Floor, Man Shing Industrial Building, 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	Rich Sunny	1,596	Office
Workshops 1–2, 5th Floor, Man Shing Industrial Building, 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	Power Regal	4,264	Warehouse

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Leased properties

As at the Latest Practicable Date, the Group rented the following property:

Location	Lessee	Tenancy Period	Monthly Rental	Gross floor areas (square feet)	Usage
Workshop 3, 24th Floor Man Shing Industrial Building, 307-311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	Rich Sunny	19 October 2011 to 18 October 2013	HK\$8,800	1,596	Warehouse
Workshop 1, 7th Floor Man Shing Industrial Building, 307-311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	Rich Sunny	16 March 2013 to 15 March 2015	HK\$11,015	N/A	Warehouse
Unit 302, 3rd Floor, 183 Zhouzi Street, Neihu District, Taipei City, Taiwan	Wisdom Healthcare	1 August 2013 to 28 February 2014	NT\$35,000	N/A	Office

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

The Board is responsible and has general powers for the management and conduct of the Group's business. The following table sets forth information regarding the current Directors:

Name	Age	Position	Date of Appointment	Responsibilities	Relationship with other Directors
Mr. Chan Yan Tak (陳恩德)	44	Chairman, chief executive officer and executive Director	5 December 2011	Responsible for the overall management, strategic development and major decision-making of the Group	Husband of Madam Tsang
Mr. Wong Mau Tai (黃茂泰)	59	Executive Director	5 December 2011	Responsible for the production, packaging and logistic functions of the Group	None
Mr. Foo Chi Ming (傅志明)	48	Executive Director	16 August 2012	Responsible for overseeing the financial and corporate strategy of the Group	None
Madam Tsang Pui Man (曾佩雯)	43	Non-executive Director	5 December 2011	Non-executive Director	Wife of Mr. Chan
Mr. Wei Jianan (魏甲南)	75	Independent non-executive Director	24 September	Independent non-executive Director and chairman of the remuneration committee and the nomination committee and member of the audit committee	None
Professor Ng Ka Ming (吳嘉名)	61	Independent non-executive Director	24 September	Independent non-executive Director and member of the audit committee, the remuneration committee and the nomination committee	None
Mr. Cheng Kwok Kin, Paul (鄭國乾)	62	Independent non-executive Director	24 September	Independent non-executive Director and chairman of the audit committee, and member of the remuneration committee and the nomination committee	None

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Executive Directors

Mr. Chan Yan Tak (陳恩德), aged 44, is the chairman of the Board and chief executive officer of the Company. Mr. Chan joined the Group in 2003 and was appointed as a Director on 5 December 2011. Mr. Chan is also a Controlling Shareholder. In addition to being the owner of the Company, Mr. Chan has been responsible for the overall management and strategic development of the Group since 2005. His expert knowledge in the areas of development and retail marketing of health and beauty supplement products has assisted the Group to grow substantially during the past 8 years. The Board of Directors therefore consider that it is beneficial to and in the interest of the Group for Mr. Chan to continue with his roles as the Chairman and Chief Executive Officer of the Group.

Mr. Chan possesses over 10 years of experience in the health food and pharmaceutical trading businesses with extensive experience in product development, materials sourcing, branding-building, advertising, marketing and retail networking. Mr. Chan joined the Group in 2003 and he succeeded the businesses of the Group in 2005, of which the businesses were originally founded by his family in 2002.

Mr. Chan was appointed as the honorary president of the Federation of Beauty Industry (H.K.) from 2007 to 2008. He is also a member of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited (港九中醫師公會) since 2004 and was appointed as the advisor of the abovementioned association in 2008.

Mr. Chan was adjudged bankrupt by virtue of the bankruptcy order made by the High Court of Hong Kong on 19 January 2000 as a result of the bankruptcy petitions made by Standard Chartered Bank (the “**Creditor**”) against him on 25 October 1999 for his default in repayment of a loan (the “**Loan**”) granted by the Creditor to Mr. Chan and Madam Tsang (a non-executive Director of the Company) (the liability of them in respect of the Loan being joint and several). The Loan owed to the Creditor was mainly arising from the indebtedness under a property mortgage. As confirmed by Mr. Chan, he did not repay the loan, and by the expiration of four years since his bankruptcy order, Mr. Chan was discharged from bankruptcy on 19 January 2004 pursuant to the section 30A of the Bankruptcy Ordinance (Chapter 6, the Laws of Hong Kong) and a Certificate of Discharge was made by the High Court of Hong Kong on 11 March 2004.

The Company confirms that the Loan was not incurred in the course of any business carried on by Mr. Chan. In view of the circumstances of the Loan and the discharge of Mr. Chan’s bankruptcy in 2004, as well as his contribution to the success of the Group, the Directors believe that Mr. Chan has the character, experience and integrity to act as a Director and will be able to demonstrate a standard of competence commensurate with his positions as a director of a listed issuer as required under the GEM Listing Rules.

Mr. Wong Mau Tai (黃茂泰), aged 59, is an executive Director of the Company. Mr. Wong was appointed as a Director on 5 December 2011. He was the general manager of the Group from July 2009 to October 2011, mainly responsible for the production, packaging and logistic functions of the Group. He possesses more than 16 years of working experience in various business segments ranging from telecommunication transportation and property development industry, where he gained the experience from his former employers and to the health food and pharmaceutical trading business segment after he joined the Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Prior to joining the Group, Mr. Wong has served as the manager of New World Development Company Limited and New World China Land Limited from December 1996 to August 1999 and September 1999 to December 2000, respectively. He subsequently served as the assistant to director and general manager of New World First Bus Services (China) Limited from January 2001 to June 2009.

Mr. Wong graduated from the Griffin College of Washington in the United States of America with a bachelor degree in business administration in 1977.

Mr. Foo Chi Ming (傅志明), aged 48, is an executive Director of the Company. Mr. Foo was appointed as a non-executive Director on 16 August 2012 and was redesignated as an executive Director on 16 July 2013. Since joining the Board, Mr. Foo has provided valuable opinions to the Board especially on matters relating to financial and corporate structures. In preparation for listing, the Board recognises the need to strengthen its executive management. Based on the fact that Mr. Foo is an experienced business executive with more than 15 years of experience in accounting, auditing and financial consulting industries, the Board considered that Mr. Foo is a suitable candidate for the position. Hence, Mr. Foo was re-designated as an executive director of the Company on 16 July 2013 to take on the responsibilities of overseeing the financial strategy of the Group and to assist Mr. Chan, the chairman of the Board and chief executive officer, to oversee the corporate strategy of the Group. Mr. Foo was also appointed as the compliance officer of the Company in compliance with GEM Rule 5.19.

Mr. Foo is a director and chief financial officer of Green Salt Management Limited since 2002. Green Salt Management Limited provides management services to three restaurants in Hong Kong. Mr. Foo is responsible for financial reporting. Mr. Foo is also a director and financial controller of Qinghai Salt Industry Co., Limited (青海省鹽業股份有限公司) since 2003. Qinghai Salt Industry Co., Limited produces and distributes salt and salt related products in the PRC. Mr. Foo will commit the majority of his time to the executive Director role at the Group. Prior to that, Mr. Foo joined the audit department of Deloitte Touche Tohmatsu from 1989 to 1992 and he subsequently worked as an associate director of Deloitte & Touche Corporate Finance Limited from February 2001 to January 2002, focusing on mergers and acquisitions and capital raising transaction activities.

Mr. Foo was awarded a professional diploma in accountancy from the City University of Hong Kong (previously known as City Polytechnic of Hong Kong) in 1989 and he obtained his bachelor degree of Arts in accountancy from the City University of Hong Kong in 1994.

Non-executive Director

Madam Tsang Pui Man (曾佩雯), aged 43, is a non-executive Director of the Company. Madam Tsang was appointed as a Director on 5 December 2011. She is the spouse of the Group chief executive officer and executive Director, Mr. Chan. Madam Tsang obtained a diploma in management studies awarded jointly by the Hong Kong Polytechnic University and the Hong Kong Management Association in 1998. Madam Tsang has worked as the assistant manager of Sing Tao Club Limited from 1996 to 1999. Relying on her previous working experience, Madam Tsang is primarily responsible for assisting Mr. Chan in formulating strategies for human resource functions and financial management.

During the Track Record Period, Madam Tsang did not enter into service contracts with and did not receive emoluments as an employee from any member of the Group or any other companies. Madam Tsang depended on Mr. Chan in respect of financial support and requirements. In view of the above, no

DIRECTORS, SENIOR MANAGEMENT AND STAFF

emoluments were paid to Madam Tsang during the Track Record Period. On 24 September 2013, Madam Tsang entered into a service agreement with the Company in connection with her appointment as a non-executive Director and is entitled to receive basic salary of HK\$240,000 per year.

Madam Tsang was adjudged bankrupt by virtue of the bankruptcy order made by the High Court of Hong Kong on 19 January 2000 as a result of the bankruptcy petitions made by Standard Chartered Bank (the “**Creditor**”) against her on 25 October 1999 for her default in repayment of a loan (the “**Loan**”) granted by the Creditor to Mr. Chan (the chairman of the Board and chief executive officer of the Company) and Madam Tsang (the liability of them in respect of the Loan being joint and several). The Loan owed to the Creditor was mainly arising from the indebtedness under a property mortgage. As confirmed by Madam Tsang, she did not repay the loan and by the expiration of four years since her bankruptcy order, Madam Tsang was discharged from bankruptcy on 19 January 2004 pursuant to the section 30A of the Bankruptcy Ordinance (Chapter 6, the Laws of Hong Kong) and a Certificate of Discharge was made by the High Court of Hong Kong on 23 April 2004.

The Company confirms that the Loan was not incurred in the course of any business carried on by Madam Tsang. In view of the circumstances of the Loan and the discharge of Madam Tsang’s bankruptcy in 2004, as well as her contribution to the success of the Group, the Directors believe that Madam Tsang has the character, experience and integrity to act as a Director and will be able to demonstrate a standard of competence commensurate with her positions as a director of a listed issuer as required under the GEM Listing Rules.

Independent non-executive Directors

Mr. Wei Jianan (魏甲南), aged 75, was appointed as an independent non-executive Director on 24 September 2013. He is also the chairman of the nomination committee and remuneration committee of the Company. Mr. Wei is an experienced business executive with more than 19 years of experience in the retail trading business, which covers the pharmaceutical, garment and household products across the regions in Hong Kong, the PRC, Europe and the United States of America.

Mr. Wei served as a director of Chinese Arts & Craft (HK) Limited from 1982 to 1996, and China Resources (Holdings) Limited from 1988 to 1997. Mr. Wei joined Wanji Pharmaceutical (Holdings) Limited (now known as Asia Coal Limited, a company listed on the main board of the Stock Exchange) on 2 October 2002 as its managing director and resigned his directorship in 2004 following the acquisition by another company, which is considered normal and would not affect his competence to act as the Company’s Director.

Mr. Wei graduated from Beijing International Business College (北京對外貿易學院), the predecessor of the University of International Business and Economics (對外經濟貿易大學) in 1965.

Professor Ng Ka Ming (吳嘉名), aged 61, was appointed as an independent non-executive director on 24 September 2013. After his graduation, he served as professor of chemical engineering department of the University of Massachusetts, Amherst. He joined The Hong Kong University of Science and Technology (“**HKUST**”) in 2000 and he is currently the chair professor of chemical and biomolecular engineering department at HKUST. He was seconded to Nano and Advanced Materials Institute Limited by HKUST and held the position of chief executive office. In addition, Professor Ng held visiting positions at DuPont Central Research and Development Experimental Station of E.L. du

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Pont de Nemours and Company and the National University of Singapore in 1995 to 1996 and 2002, respectively. He also served as a corporate science and technology advisor of Mitsubishi Chemical Corporation.

He obtained his bachelor degree in chemical engineering from the University of Minnesota in 1976 and the degree of doctor of philosophy from the University of Houston in 1980. Professor Ng received the Excellence in Process Development Research Award from the American Institute of Chemical Engineers in 2002 and subsequently elected as a Fellow of American Institute of Chemical Engineers in 2003.

Mr. Cheng Kwok Kin Paul (鄭國乾), aged 62, was appointed as an Independent Non-executive Director of the Company on 24 September 2013. He is also the chairman of the audit committee. Mr. Cheng has over 30 years of experience in the accounting and finance disciplines. Mr. Cheng joined Leach & Co., Chartered Accountants, of London, United Kingdom in 1972, and qualified as a Chartered Accountant in 1976. He became a partner of the firm in 1978 and retired from the partnership in 1992. Mr. Cheng was with Mitsubishi UFJ Securities (HK) Holdings, Limited between April 2006 and December 2012. He joined the company initially as a managing director, head of legal, compliance and company secretary. He was appointed as a board director and deputy president of the company in November 2007 and held these positions until his retirement in December 2012.

Mr. Cheng was admitted as an Associate of the Institute of Chartered Accountants in England and Wales (“ICAEW”) and of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) in 1976 and 1982, respectively. He was made Fellow of ICAEW in 1982 and Fellow of HKICPA in 1990. Mr. Cheng was a member of Corporate Finance Committee of the HKICPA from 2006 to 2012. Currently, he is a member of the Audit Profession Reform Working Group of the HKICPA and a member of the Examinations Committee of the Hong Kong Securities and Investment Institute.

Save as disclosed above, the Directors having made all reasonable enquiries, there are no other matters concerning all the Directors’ appointment that need to be brought to the attention of the Shareholders and the Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

SENIOR MANAGEMENT

Mr. Yan Tat Ming (甄達明), aged 49, is the chief production officer of the Group. Mr. Yan joined the Group in January 2012. He is primarily responsible for the production and quality assurance functions of the Group. Mr. Yan has more than 12 years of experience in the pharmaceutical industry. He is experienced in the areas of production and quality assurance and familiar with production with GMP standard. Prior to joining the Group, Mr. Yan worked as a general manager in Vickmans Laboratories Limited from June 2001 to July 2003, business and marketing general manager in Hong Kong Chi Chun Tang Herbal Factory Limited from September 2003 to August 2007, pharmacist in Hong Kong Lee Man Shan Medicine Manufacturing Ltd in 2008 and general manager in Karen Pharmaceutical Co. Ltd from September 2008 to November 2011.

Mr. Yan obtained his bachelor’s degree in pharmacy from Robert Gordon Institute of Technology Aberdeen in 1991. He is registered as a pharmaceutical chemist and is a member of the Royal Pharmaceutical Society of Great Britain since 1992. He is also admitted as a pharmacist in accordance to

DIRECTORS, SENIOR MANAGEMENT AND STAFF

the Pharmacy and Poisons Ordinance (Chapter 138, the Laws of Hong Kong) in 1992. Mr. Yan was elected as the committee member and deputy secretary-general of the Hong Kong Chinese Prepared Medicine Traders Association in 2004 and 2006, respectively.

Ms. Mak Mei Kuen (麥美娟), aged 36, is the chief financial officer of the Group. Ms. Mak joined the Group in November 2011 and is primarily responsible for supervising the financial reporting, corporate finance, treasury, tax and other finance related matters of the Group.

Ms. Mak has over 13 years of experience in accounting and financial management. She worked for Deloitte Touche Tohmatsu from September 1998 to August 2010, and from September 2010 to November 2011, as the financial controller at Grand TG Gold Holdings Limited, responsible for financial reporting.

Ms. Mak received a bachelor degree in accountancy from the Hong Kong Polytechnic University in 1998. She is a member of the Hong Kong Institute of Certified Public Accountants. She is also a member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators.

Ms. Wong Chui Lan (王翠蘭), aged 41, is the sales controller of the Group. Ms. Wong is responsible for sales department including the supervision of the sales promoter team of the Group and also acts as the person-in-charge of the customer services and member club functions of the Group. She joined the Group in 2004 as a senior manager and was subsequently promoted to the deputy general manager in 2010 and sales controller in 2011.

Ms. Wong possesses more than eight years of working experience in the retail marketing specialising in selling and distribution of PCM health supplements and beauty supplements and products. She graduated from Chiu Lut Sau Memorial Secondary School in 1987.

Ms. Chow Wing Shan (周詠珊), aged 39, is the marketing controller of the Group. Ms. Chow joined the Group in August 2012. She is primarily responsible for the marketing and brand management of the various products of the Group. Ms. Chow has approximately 14 years of experience in marketing and sales. Prior to joining the Group, Ms. Chow worked in Oriental Press Group Ltd from September 1999 to December 2010. She held various positions in the sales department of Oriental Press Group Ltd and she was promoted to chief business manager of the sales department in 2008. Ms. Chow was a business development director of Mooi Living Group Limited from February 2011 to October 2011 and general manager of Home Expo (Hong Kong) Limited from November 2011 to July 2012. Ms. Chow obtained a bachelor degree in business administration in marketing awarded by the Hong Kong University of Science and Technology in 1996.

Ms. Yuen Yee Han, Ady (源綺嫻), aged 53, is the administration controller of the Group. Ms. Yuen is responsible for the human resources management, administrative function, products compliance, production and logistics aspects of the Group. Ms. Yuen was engaged as the consultant of the Group since 2005 to provide business, investment, licence applications and compliance related consulting services to the Group and implement human resource plan, supervise the daily administration of the Group. Ms. Yuen subsequently joined the Group in October 2011 as the administration controller.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Ms. Yuen possesses more than 20 years of working experience in the retail and trading businesses specialising in the human resources, administration, training and public relations and customer services aspects. Prior to joining the Group, Ms. Yuen served as the supervisor of general affairs department in an oriental arts and crafts company from May 1986 to October 2002 and she was self-employed and served as a director of her own consultancy companies from 2004 to 2011. She holds a diploma on foreign trade awarded by the University of Foreign Economic and Trade in Beijing, PRC, in 1996.

COMPLIANCE OFFICER

Mr. Foo Chi Ming (傅志明), aged 48, is the compliance officer of the Company. Please refer to the paragraph headed “Executive Directors” in this section for further details.

COMPANY SECRETARY

Ms. Mak Mei Kuen (麥美娟), aged 36, is the company secretary of the Company. Please refer to the paragraph headed “Senior management” in this section for further details.

REMUNERATION POLICY

The Group’s Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of the Group. The Group also reimburses them for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation package of the Group’s Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Group’s Directors and the performance of the Group.

STAFF OF THE GROUP

As at the Latest Practicable Date, the Group had a total of 167 full-time employees. The following table sets out a breakdown of the Group’s employees by division as at the Latest Practicable Date:

Division	Number of employees
Management and Business Development	4
Sales	100
Marketing	14
Production and Logistics	14
Finance	7
Administration and Human Resources Management	16
Customer Service Department	4
Chinese Medicine Clinics	8
Total	<u>167</u>

DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF RELATIONS

The Group recognises the importance of a good relationship with the Group employees. The remuneration payable to the employees includes salaries, commissions and allowances. The Group continues to provide training to the staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

The Group believes that the employee relations are satisfactory in general. The Group believes that the management policies, working environment, career prospects and benefits extended to the employees have contributed to employee retention and building of amicable employee relations.

RETIREMENT BENEFIT SCHEME

The Group participates in the mandatory provident fund for its employees in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485, the Laws of Hong Kong). The Group has paid the relevant contribution in accordance with the aforesaid laws and regulations.

BOARD COMMITTEES

Audit committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 24 September 2013 with written terms of reference in compliance with Rule 5.28 and Rule 5.29 of the GEM Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee, among other things, are to make recommendation to the Board on the appointment, reappointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and oversee internal control procedures of the Company. At present, the audit committee of the Company consists of three members, namely Mr. Wei Jianan (魏甲南), Professor Ng Ka Ming (吳嘉名) and Mr. Cheng Kwok Kin, Paul (鄭國乾). Mr. Cheng Kwok Kin, Paul (鄭國乾) is the chairman of the audit committee.

Remuneration committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 24 September 2013 with written terms of reference in compliance with Rule 5.34 and Rule 5.35 of the GEM Listing Rules. The written terms of reference of the remuneration committee was adopted in compliance with paragraph B1.2 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all the Directors and senior management of the Group; review performance based remuneration; and ensure none of the Directors determine their own remuneration. The remuneration committee consists of three members, namely Mr. Wei Jianan (魏甲南), Professor Ng Ka Ming (吳嘉名) and Mr. Cheng Kwok Kin, Paul (鄭國乾). Mr. Wei Jianan (魏甲南) is the chairman of the remuneration committee.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Nomination committee

The Company established a nomination committee pursuant to a resolution of the Directors passed on 24 September 2013 written terms of reference in compliance with paragraph A5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary function of the nomination committee is to make recommendations to the Board regarding appointment of Directors and candidates to fill vacancies on the Board. The nomination committee consists of three members, namely Mr. Wei Jianan (魏甲南), Professor Ng Ka Ming (吳嘉名) and Mr. Cheng Kwok Kin, Paul (鄭國乾). The chairman of the nomination committee is Mr. Wei Jianan (魏甲南).

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed WAG Worldsec to be the Group's compliance adviser, who will have access to the Company's authorised representatives, Directors and other officers at all times. The material terms of the compliance adviser's agreement entered into between the Company and the compliance adviser are as follows:

- (i) the term of the appointment shall commence on the Listing Date and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the Group's financial results for the second full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (ii) the compliance adviser shall provide the Company with guidance and advice as to compliance with the GEM Listing Rules and all other applicable laws, rules, codes and guidelines;
- (iii) the Company agrees to indemnify and holds the compliance adviser (for itself and on trust for the compliance adviser's affiliates, its and their respective directors, officers, agents and employees and each other person, if any, controlling the compliance adviser or any of its affiliates) harmless from and against any and all losses, claims, damages or liabilities, incurred by the compliance adviser in relation to the services provided to the Company, save to the extent that any such loss, claim, damage or liability arises as a direct result of the wilful default or gross negligence of the compliance officer; and
- (iv) the Company shall have the right, subject to thirty (30) days' written notice to terminate the role of the compliance adviser under the agreement only if the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within thirty (30) days) over fees payable by the Company to the compliance adviser. The compliance adviser shall have the right to resign or terminate its appointment as a compliance adviser under the agreement if the Company fails to perform the Group's responsibilities as described in the agreement at any time by giving not less than thirty (30) days' written notice to the Company.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Placing (but without taking into account the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), so far as the Directors are aware, the following persons individually and/or collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of the Company:

Name	Capacity/nature of interest	Number of Shares held immediately after the Placing	Approximate percentage of interest in the Company immediately after the Placing
Mr. Chan	Interest in a controlled corporation (<i>Note 1</i>)	385,400,000 (long position)	75%
Able Island	Beneficial owner (<i>Note 2</i>)	385,400,000 (long position)	75%

Notes:

- (1) Mr. Chan owns the entire issued share capital of Able Island. Accordingly, Mr. Chan is deemed to be interested in the 385,400,000 Shares held by Able Island by virtue of the SFO.
- (2) The entire issued share capital of Able Island is beneficially owned by Mr. Chan. Accordingly, Mr. Chan is deemed to be interested in the 385,400,000 Shares held by Able Island by virtue of the SFO.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Placing (but without taking into account the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), so far as the Directors are aware, the following person/entities will have interests and/or short positions in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, 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 the Company:

Name	Capacity/nature of interest	Number of Shares held immediately after the Placing	Approximate percentage of interest in the Company immediately after the Placing
Mr. Chan	Interest in a controlled corporation (<i>Note 1</i>)	385,400,000 (long position)	75%
Madam Tsang	Interest of Spouse (<i>Note 2</i>)	385,400,000 (long position)	75%
Able Island	Beneficial owner (<i>Note 3</i>)	385,400,000 (long position)	75%

Notes:

- (1) Mr. Chan owns the entire issued share capital of Able Island. Accordingly, Mr. Chan is deemed to be interested in the 385,400,000 Shares held by Able Island by virtue of the SFO.
- (2) Madam Tsang is the wife of Mr. Chan, who owns the entire issued share capital of Able Island. Accordingly, Madam Tsang is deemed to be interested in the 385,400,000 Shares held by Able Island by virtue of the SFO.
- (3) The entire issued share capital of Able Island is beneficially owned by Mr. Chan. Accordingly, Mr. Chan is deemed to be interested in the 385,400,000 Shares held by Able Island by virtue of the SFO.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, save for the persons disclosed under the paragraph headed “Substantial Shareholders” in this section, there are no other persons who will immediately following completion of the Placing be directly or indirectly interested in five per cent. or more of the voting power at the general meetings of the Company and are therefore regarded as significant shareholders of the Company under the GEM Listing Rules.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

The Directors do not expect that there will be any other significant transactions between the Group and the Controlling Shareholders upon or immediately after Listing. Having considered the following factors, the Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholders and their respective associates after the Listing.

Financial Independence

The Directors are of the view that the Group does not unduly rely on advances from the Controlling Shareholders and related parties for the business operations. As at the Latest Practicable Date, all outstanding balances due to related parties including the amounts due to the Controlling Shareholders of the Company have been settled. The Group has its own accounting systems, accounting and finance departments, independent treasury function, and the Group makes financial decisions based on its own business needs.

As at 31 March 2012 and 2013, the secured bank loans of the Group were approximately HK\$4.0 million and approximately HK\$3.5 million respectively. Certain banking facilities of the Group were secured by the Group's properties in Hong Kong together with guarantees granted by its related parties, including Mr. Chan, a Controlling Shareholder and an executive Director, and his associates. As at the Latest Practicable Date, the Group has obtained written consents in principal from the banks to release and replace such guarantees by corporate guarantee to be given by the Company.

During the Track Record Period, the Group provided guarantees to banks in connection with certain banking facilities granted by such banks to the Group's related parties, including Mr. Chan, a Controlling Shareholder and an executive Director, and his associates. As at the Latest Practicable Date, the Group has obtained written consents in principal from the banks to release such guarantees.

In view of the above, the Directors consider that the Group is capable of carrying on its business without financial reliance on the Controlling Shareholders.

Operational Independence

The Group has not entered into any connected transaction with any of the Shareholders that will continue after the Listing. The Group makes business decisions independently and holds all relevant licences necessary to carry on its business and has sufficient capital, equipment and employees to operate the Group business in the name of any member of the Group. The Company does not rely on the Controlling Shareholders for any significant amount of the Group's revenue, intellectual properties, product development, staffing or marketing and sales activities. There is also no potential operational competition between the Group and the Controlling Shareholders in terms of human and capital resources, technology, intellectual properties, licences, permits and suppliers for the following reasons:

- (a) the Group has established its own operational structure and has its own headcount of employees for the Group's operations comprised of separate departments, each with a specific area of responsibility and the Group's own human resources department headed by a member of the senior management, for managing its work force. The Group has also established a set of internal control procedures to facilitate the effective operation of its business;

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

- (b) the Group does not rely on its Controlling Shareholders for any financing and the Group has its own treasury functions. The Group is also not reliant on intra-group funding from the Controlling Shareholders for the Group operations; and
- (c) all the registered trademarks and other intellectual properties necessary or desirable for the Group's business is registered in the name of the Group, as disclosed in the paragraph headed "Intellectual property rights of the Group" in Appendix V to this prospectus.

Management Independence

Board

To ensure that the Group can operate independently from the Controlling Shareholders, certain corporate governance measures have been adopted. The Board comprises seven Directors, which include three executive Directors, namely Mr. Chan, Mr. Wong and Mr. Foo Chi Ming, one non-executive Director, namely Madam Tsang and three independent non-executive Directors, namely Mr. Wei Jianan, Professor Ng Ka Ming and Mr. Cheng Kwok Kin, Paul. All the independent non-executive Directors are sufficiently experienced and capable of monitoring the operation of the Group independently of the Controlling Shareholders. Therefore, the Directors are of the view that the interests of the Shareholders can be safeguarded. For details of the Directors, please refer to section headed "Directors, Senior Management and Staff" in this prospectus. Each of the Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefit and in the best interests of the Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event there are conflicts of interests for approving a proposed transaction due to the dual positions of a Director acting as director of the Company and another company, pursuant to the relevant provisions of the Articles of Association, the Director shall be absent from the Board meeting and abstain from voting (nor be counted in the quorum) in the resolution(s) of the Board approving such transaction.

Committees

The Group has established an audit committee, a remuneration committee and a nomination committee. Each committee consists of a majority of independent non-executive Directors to monitor the operation of the Group.

The audit committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and oversee internal control procedures for the Company. The remuneration committee's role is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The nomination committee is responsible for making recommendation to the Board regarding appointment of Directors and candidates to till vacancies on the Board.

Senior Management

The Group is also managed by the senior management who can work and carry on the business of the Group independently of the Controlling Shareholders. For details of the Group's senior management, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Having considered the above factors, the Directors are satisfied that they are able to perform their roles in the Company independently, and the Directors are of the view that the Group is capable of managing the business independently of the Controlling Shareholders after the Listing.

UNDERTAKINGS

Each of the Company and the Controlling Shareholders has given certain undertakings in respect of the Shares (including those as required by Rules 13.16A(1) and 13.19 of the GEM Listing Rules, where applicable) to the Company, the Sole Sponsor, the Lead Manager, the Underwriters and the Stock Exchange, details of which are set out under the paragraph headed “Undertakings” in the section headed “Underwriting” in this prospectus.

COMPETING INTERESTS

So far as the Directors are aware, none of the Controlling Shareholders, substantial shareholders of the Company and Directors is interested in any business that competes, or is likely to compete, directly or indirectly, with the business of the Group.

NON-COMPETITION UNDERTAKINGS

Each of Mr. Chan and Able Island confirmed that other than his/its interest in the Company and those disclosed in this prospectus, none of them is engaged in any business which, directly or indirectly, competes or may compete with the business of the Company or any of its subsidiaries, or has any interest in such business.

Each of Mr. Chan and Able Island as covenantor (each a “**Covenantor**”, collectively, “**Covenantors**”) executed the Deed of Non-competition in favour of the Company (for itself and as trustee for its subsidiaries) and undertakes that, during the period commencing from the Listing Date and ending on the earlier of (i) the date upon which the Company’s shares cease to be listed on the Stock Exchange; or (ii) the date upon which the Covenantors and their associates cease to own 30% or more of the then issued share capital of the Company directly or indirectly:

- (a) each of the Covenantors shall not, and shall procure that neither the Covenantors nor their respective associates and/or companies controlled by the Covenantors (other than the Group) will, directly or indirectly be interested in or engaged in any form of business, including but not limited to joint venture, alliance, cooperation, partnership, which competes or is likely to compete directly or indirectly with the Group’s business, in any area in which the Group carries or may carry on business from time to time; nor provide support in any form to persons other than the Group to engage in business that constitute or may constitute direct or indirect competition with the businesses that the Group is currently and from time to time carrying on; and
- (b) in the event the Covenantors or any of their associates (other than the Group) are given any business opportunities that is or may involve direct or indirect competition with the businesses of the Group, the Covenantors shall refer the business opportunity to the Group and shall assist the Group to obtain such business opportunity in the terms being offered to any of the Covenantors or their associates.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Pursuant to the Deed of Non-competition, each of the Covenantors agrees to indemnify and keep indemnified the Company and other members of the Group against any loss suffered by the Company and/or the other members of the Group arising out of any breach of any of the Covenantor's undertakings under the Deed of Non-competition.

Corporate governance measures

The following corporate governance measures will be adopted to monitor the compliance of the terms of the Deed of Non-competition:

- (a) the independent non-executive Directors of the Company will review, at least on an annual basis, the compliance with the terms of the Deed of Non-competition by the Covenantors and the options, pre-emptive rights or first rights of refusals provided by the Covenantors on the Covenantors' existing or future competing businesses;
- (b) the decisions on matters reviewed by the independent non-executive Directors of the Company relating to the compliance and enforcement of the Deed of Non-competition (including without limitation the exercise of option or first rights of refusals, if any) shall be disclosed either through the annual report of the Company or by way of announcements published by the Company to the public;
- (c) the Covenantors shall, upon demand, promptly provide all information necessary for the annual review by the independent non-executive Directors of the Company and the enforcement of the Deed of Non-competition undertaking;
- (d) the Covenantors shall make an annual declaration on compliance with the Deed of Non-competition in the annual report of the Company; and
- (e) when any business opportunity is referred to the Group, the Directors will convene a Board meeting at which to consider such opportunity. Pursuant to the Articles, if the Covenantor is materially interested in such opportunity, then the Covenantor who has referred such business opportunity to the Group shall not be counted in the quorum and must abstain from voting on matters relating to such business opportunity when such business opportunity is being considered at a Board meeting.

As the Covenantors have given non-competition undertakings in favour of the Company, and none of them have interests in other businesses that compete or are likely to compete with the business of the Group, the Directors are of the view that they are capable of carrying on the Group's business independently of the Covenantors following the Listing.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

As at the Latest Practicable Date, the share capital of the Company was as follows:

		<i>HK\$</i>
Authorised:		
<u>1,000,000,000</u>	Shares of HK\$0.01 each	<u>10,000,000</u>
Shares issued and to be issued, fully paid or credited as fully paid:		
1,000,000	Shares in issue	10,000
384,400,000	Shares to be issued under the Capitalisation Issue	3,844,000
<u>129,600,000</u>	Shares to be issued under the Placing	<u>1,296,000</u>
Total Shares issued and to be issued immediately upon completion of the Placing:		
<u>515,000,000</u>	Shares	<u>5,150,000</u>

ASSUMPTIONS

The above table assumes the Placing becomes unconditional and the issue of Shares pursuant thereto is made as described herein. It takes no account of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to below or otherwise.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the total issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

RANKING

The Placing Shares are ordinary shares in the share capital of the Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately upon completion of the Placing; and

SHARE CAPITAL

- (b) the aggregate nominal value of share capital of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (a) the conclusion of the next annual general meeting of the Company; or
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held; or
- (c) when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting.

For further details of this general mandate, please refer to the paragraph headed “Written resolutions of the Sole Shareholder” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing become unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase such number of Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of the Company in issue immediately upon completion of the Placing.

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

This mandate will expire at the earliest of:

- (a) the conclusion of the next annual general meeting of the Company; or
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held; or
- (c) when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed “A. Further Information about the Company — 5. Written resolutions of the Sole Shareholder” in Appendix V to this document.

FINANCIAL INFORMATION

You should read the following discussion and analysis of the Group's financial condition and results of operations in conjunction with the Group's combined financial information included in the Accountant's Report, which has been prepared in accordance with HKFRSs, as set out in Appendix I to this prospectus, and the unaudited pro forma financial information included in Appendix II to this prospectus, in each case together with the accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section headed "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

The Group owns and operates 御藥堂 (Royal Medic), one of the leading brands of PCM health supplements in Hong Kong. The Group is principally engaged in the business of formulation, marketing, sales and distribution of health supplements and beauty supplements and products mainly in Hong Kong. The Group's products are sold under its proprietary brands and the Distribution Facilitator's private label brands specifically developed and manufactured for the Distribution Facilitator.

The Group has two product segments: (i) health supplements; and (ii) beauty supplements and products. Under the Group's health supplements segment, its products are further divided into two categories: PCM health supplement and non-PCM health supplement. As at the Latest Practicable Date, the Group sells and distributes 58 types of health supplements. Of which, 22 types are under the Group's proprietary brands of Royal Medic, Haruka, Mr. 75 and Herballand, 36 types are under the Distribution Facilitator's private labels of Kiwi Lab and Health Proof. As at the Latest Practicable Date, the Group sells and distributes 16 types of beauty supplements and products. Of which, 8 types are under the Group's proprietary brands including Royal Medic and La Gusto, 8 types are under the Distribution Facilitator's private labels, "Kiwi Lab" and "Health Proof".

The Group's revenues for the two years ended 31 March 2013 increased by approximately HK\$5.0 million or 3.1% from approximately HK\$158.8 million to HK\$163.8 million.

The Group's net profit for the two years ended 31 March 2013 decreased by approximately HK\$3.7 million or 8.6% from approximately HK\$43.0 million to HK\$39.3 million.

BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 23 September 2013. The companies now comprising the Group were under the common control of the Controlling Shareholders prior to the Reorganisation and have continued to be under the common control of the Controlling Shareholders since the Reorganisation. The Group, comprised of the Company and its subsidiaries, resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the financial information of the Group for the two years ended 31 March 2013 has been prepared on a combined basis as if the Reorganisation had been completed at the beginning of the Track Record Period and the Company had always been the holding company of the companies comprising the Group throughout the Track Record Period, using the principles of merger accounting. However, the combined financial information presented in this prospectus does not purport

FINANCIAL INFORMATION

to be indicative of what the Group's actual financial and operational data would have been if the Group's current structure had been in existence since 1 April 2011. See "History and Development — Reorganisation" in this prospectus and Appendix V "Statutory and General Information" to this prospectus.

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the two years ended 31 March 2013 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The combined statements of financial position of the Group as at 31 March 2012 and 2013 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses comprising the Group using the historical book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation, and all intra-group transactions and balances have been eliminated on combination.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The major factors affecting the results of operations and financial condition of the Group included the following:

Sales Volume, advertising and promotion activities and pricing of the Group's products

The Group's results of operations are directly affected by the Group's sales volume, which in turn depends on market demand and the Group's ability to widely distribute its products. Directors believe that the Group's future results of operations will depend significantly upon its ability to increase sales of its products through marketing and advertising campaigns, such as advertisements through major television channels, newspapers and magazines, outdoor advertising and promotion activities such as participating in large scale exhibitions, the Group's website and brand ambassadors. The Group plans to continuously engage in consumer advertising and the Group expects advertising and promotion expenses to continue to rise in the future, which in turn will increase its selling and distribution expenses. The Group's advertising and promotion expenses amounted to approximately HK\$20.4 million and HK\$25.4 million for the two years ended 31 March 2013, and accounted for 66.2% and 66.9% of the total selling and distribution expenses, respectively. As demand for the Group's products may be impacted by the success of its advertising and promotion activities, if the Group is unable to increase sales of its products through these marketing efforts, the Group's financial condition and results of operations may be materially and adversely affected.

The selling prices of the Group's health supplements and beauty supplements and products did not materially fluctuate during the Track Record Period. However, the Group may adjust its selling prices of the products as a result of increase in raw material and packaging costs in order to maintain its profitability in the future.

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The Group's ability to introduce new products in response to demand and preferences of general public consumers

The Group's best-selling product, Royal Medic CS-4, contributed to approximately HK\$60.6 million and HK\$57.1 million, representing approximately 38.2% and 34.9% of the Group's total revenue for the two years ended 31 March 2013. If the demand for Royal Medic CS-4 decreases significantly, the Group's business, financial condition and results of operations would be materially and adversely affected. Directors believe that the Group's future results of operations and financial condition depend to a significant extent on its ability to develop or acquire new products that respond to changes in consumer trends and preferences and its ability to diversify its product range. The Group's gross margin and financial condition may also be affected by the profitability of its new products and the product mix.

The Group believes that its new products will contribute to the Group's future growth and profitability. The Group will also continue its cooperation with research institutions and universities to develop and evaluate new products. The Group believes that its marketing and distribution experience will allow it to develop products that could gain widespread recognition quickly and contribute to the Group's revenue growth and profitability.

Competition

For the Group's health supplements, the Group faces competition from Hong Kong and foreign health supplement manufacturers and distributors. As the market grows and customer segment diversify, more players are expected to enter the Hong Kong market. Competitive factors impacting on the Group's health supplements include pricing, brand recognition, marketing and advertising.

The beauty supplements and products market is competitive and fragmented, and foreign brands hold dominating positions in Hong Kong. For the Group's beauty supplements and products, the Group faces competition from Hong Kong and foreign beauty supplements and products manufacturers and distributors. The Group competes with these manufacturers and distributors based on the efficacy, product recognition, marketing and advertising. However, increased competition or the inability to sustain the Group's competitive advantage could adversely affect the Group's business, financial condition and results of operation.

Cost of raw materials and packaging materials

The Group's profitability is affected by the cost of packaging materials and raw materials for its products. The pricing of raw materials and packaging materials has not materially changed in recent years. The Group's raw materials and packaging materials amounted to approximately HK\$18.6 million and HK\$23.3 million for the two years ended 31 March 2013, which accounted for 57.4% and 67.1% of the total cost of sales accordingly. The increase is primarily due to the change in the product mix of the Group with the expansion of the Health Proof brand of private label products and products bundled into multi-purchase units being sold at more attractive prices at ad hoc promotions and special sales events (出位價) promotions. In addition, packaging material costs may also increase as a result of the Group's decision to change the design of the packaging of its products from time to time to complement its overall marketing activities.

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Relationship with the Distribution Facilitator

The Group has established business relationship with the Distribution Facilitator since 2005. According to the Ipsos Report, the Distribution Facilitator is one of the largest retail chains of health supplements and beauty supplements and products in Hong Kong. As at the Latest Practicable Date, the Distribution Facilitator had approximately 355 stores in Hong Kong and approximately 15 stores in Macau. The Group generated revenue of approximately HK\$123.3 million and HK\$117.0 million through products sold on the shelves of the Distribution Facilitator, representing approximately 77.6% and 71.4% of the Group's total revenue for the two years ended 31 March 2013. The Group generated revenue of approximately HK\$24.8 million and HK\$35.1 million through products sold at SDCs in the Distribution Facilitator's stores, representing approximately 15.6% and 21.5% of the Group's total revenue for the two years ended 31 March 2013. The Group has collaborated with the Distribution Facilitator to develop private label products, which enabled the Group to further diversify its product range. The Group's business, financial position and results of operations will continue to be affected by its relationship with the Distribution Facilitator.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Group has identified below the accounting policies that the Group believes are the most critical to its audited combined financial statements. These accounting policies require the most difficult, subjective or complex judgments of the Group's management, 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 because of their significance to the Group's audited combined financial statements. The estimates and associated assumptions are based on historical experience and various other factors that the Group believes are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. Actual results may differ from these estimates.

The Group reviews its 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. For additional details regarding the Group's critical accounting policies, please see note 2 "Significant Accounting Policies" and note 4 "Critical Accounting Estimates" in the Accountants' Report in Appendix I to this prospectus.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recognised after deduction of any trade discounts and net of sales return.

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(ii) Provision of Chinese medical consultation services

Income from the provision of Chinese medical consultation services is recognised when services are provided.

(iii) Interest income

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

Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease;
- buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;
- other property, plant and equipment are depreciated on a straight-line method over their estimated useful lives as follows:

Leasehold improvements	20% per annum
Plant and machinery	30%–33% per annum
Furniture, fixtures and equipment	20%–33% per annum
Motor vehicles	20% per annum

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised to profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

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

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amounts of the investment with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.
- For trade receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded

FINANCIAL INFORMATION

using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— *Property, plant and equipment*

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its fair value less costs to sell and its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

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Inventories

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

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

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

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

Trade and other receivables

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

Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter carried at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The combined statements of comprehensive income of the Group during the Track Record Period, which have been extracted from the Accountants' Report set out in Appendix I to this prospectus, are shown as below:

	Year ended 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	158,793	163,767
Cost of sales	<u>(32,449)</u>	<u>(34,757)</u>
Gross profit	126,344	129,010
Other revenue and other net income	31	1,337
Selling and distribution expenses	(30,768)	(38,018)
Administrative expenses	<u>(42,882)</u>	<u>(45,735)</u>
PROFIT FROM OPERATIONS	52,725	46,594
Finance costs	<u>(131)</u>	<u>(110)</u>
PROFIT BEFORE TAXATION	52,594	46,484
Taxation	<u>(9,562)</u>	<u>(7,220)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>43,032</u>	<u>39,264</u>

PRINCIPAL STATEMENT OF COMPREHENSIVE COMPONENTS

Revenue

During the Track Record Period, revenue was derived mainly from the sales of the Group's health supplements and beauty supplements and products in Hong Kong. Revenue represents the net invoiced value of goods sold after deduction of allowances for returns and trade discounts provided to the Group's distributors or general public consumers.

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The following table sets forth the breakdown of the Group's revenue by business segments during the Track Record Period:

Business segment:	Year ended 31 March			
	2012		2013	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Health supplements	109,469	68.9%	120,082	73.3%
Beauty supplements and products	48,784	30.8%	42,840	26.2%
Others	540	0.3%	845	0.5%
Total	158,793	100.0%	163,767	100.0%

Revenue from sales of health supplements and beauty supplements and products represents the Group's products sold under its proprietary brands and the Distribution Facilitator's private labels brands. These products are principally sold through the Group's major sales channel being the Distribution Facilitator's retail stores.

The following tables sets forth the top five best selling health supplements and beauty supplements and products during the Track Record Period:

Health supplements Top five best selling products	Year ended 31 March			
	2012		2013	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Royal Medic CS-4	60,599	38.2%	57,125	34.9%
RM Broken Ganoderma Spore	9,306	5.9%	7,292	4.5%
Royal Medic Liver Guard	6,379	4.0%	7,347	4.5%
Royal Medic Prostate Care	7,039	4.4%	4,336	2.6%
Royal Medic Joints Well Extra	3,838	2.4%	3,846	2.3%
Total	87,161	54.9%	79,946	48.8%

The revenue attributable to the top 5 health supplements, which are all proprietary brands, decreased by approximately HK\$7.3 million or 8.4% from approximately HK\$87.2 million to HK\$79.9 million for the two years ended 31 March 2013. The revenue attributable to Royal Medic CS-4 decreased by approximately HK\$3.5 million or 5.8% from approximately HK\$60.6 million to HK\$57.1 million for the two years ended 31 March 2013. This is primarily due to a decrease in the retail prices of Royal Medic CS-4 as a result of extended promotional periods are offered to the general public consumers in addition to the special sales events (出位價). The decrease in revenue from the top 5 health supplements is compensated by the overall increase in revenue of the other health supplements.

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Beauty supplements Top five best selling products	Year ended 31 March			
	2012		2013	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
La Gusto Slim Coffee	10,095	6.4%	11,933	7.3%
Kiwi Lab Gold Kiwi Slim New Zealand	12,331	7.8%	3,904	2.4%
Papaya Slim	5,303	3.3%	4,112	2.5%
Kiwi Lab Magic Mix	—	0.0%	8,812	5.4%
L-Slim 24	<u>2,982</u>	<u>1.9%</u>	<u>3,325</u>	<u>2.0%</u>
Total	<u><u>30,711</u></u>	<u><u>19.4%</u></u>	<u><u>32,086</u></u>	<u><u>19.6%</u></u>

The revenue attributable to the top 5 best selling beauty supplements and products during the two years ended 31 March 2013 increased from approximately HK\$30.7 million to HK\$32.1 million for the two years ended 31 March 2013. The increase in revenue attributable to the top 5 selling beauty supplements is primarily the combined effect of (i) the reduction in average unit prices for 4 of the top 5 best selling beauty supplements and products; (ii) the increase in quantities sold of La Gusto Slim coffee and L-Slim 24 of quantities; (iii) the decrease in quantities sold of Kiwi Lab Gold Kiwi Slim New Zealand; (iv) the launch of the new product Kiwi Lab Magic Mix. The total revenue attributed from beauty supplements and products decreased from HK\$48.8 million to HK\$42.8 million for the two years ended 31 March 2013.

During the Track Record Period, the Group's top five selling products in the health supplements segment were Royal Medic CS-4, RM Broken Ganoderma Spore, Royal Medic Liver Guard (御藥堂淨肝健), Royal Medic Prostate Care (御藥堂前列爽) and Royal Medic Joints Well Extra (御藥堂特強關節活), which in aggregate contributed to approximately HK\$167.1 million or 51.8% of the Group's total revenue during the Track Record Period. Royal Medic CS-4 is the best-selling product of the Group, which contributed to approximately HK\$60.6 million and HK\$57.1 million, representing approximately 38.2% and 34.9% of the Group's revenue for the two years ended 31 March 2013, respectively. Royal Medic CS-4 is fermented from Cordyceps Sinensis and its powder is a ready-to-serve packaged health supplement. Cordyceps Sinensis is a traditional dried Chinese medicinal herb that belongs to the fungus category.

During the Track Record Period, the Group's top five best-selling products in the beauty supplements and products segment were La Gusto Slim Coffee (格斯圖特濃燒脂咖啡), Kiwi Lab Gold Kiwi Slim New Zealand (奇異立寶金奇異瘦), Papaya Slim (木瓜溶脂素), Kiwi Lab Magic Mix (奇異立寶奇妙瘦) and L-Slim 24, which in aggregate contributed to approximately HK\$62.8 million or 19.5% of the Group's total revenue during the Track Record Period. La Gusto Slim Coffee was the best-selling beauty supplement of the Group during the Track Record Period, which contributed to approximately HK\$10.1 million and HK\$11.9 million, representing 6.4% and 7.3% of the Group's total revenue for the two years ended 31 March 2013, respectively.

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Cost of sales

The Group's cost of sales primarily comprises cost of raw material and packaging material, labour costs related to production and/or packaging of the Group's products, write down of inventories, provision of goods return and subcontracting costs. The following table sets forth a breakdown of cost of sales by component for the Track Record Period:

	Year ended 31 March			
	2012		2013	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Raw material costs	11,942	36.8%	17,260	49.7%
Packaging material costs	6,633	20.4%	6,066	17.4%
Labour costs	3,120	9.6%	2,838	8.2%
Write down of inventories	1,509	4.7%	639	1.8%
Provision of goods return	2,620	8.1%	1,306	3.8%
Subcontracting costs	3,764	11.6%	2,630	7.6%
Laboratory test fee	1,164	3.6%	2,024	5.8%
Others	<u>1,697</u>	<u>5.2%</u>	<u>1,994</u>	<u>5.7%</u>
Total cost of sales	<u><u>32,449</u></u>	<u><u>100.0%</u></u>	<u><u>34,757</u></u>	<u><u>100.0%</u></u>

Raw material costs constituted the largest component of the cost of sales. Raw material costs and packaging material costs are recognised when revenue in relation to sales of the finished product using such raw materials and packaging materials is recognised. During the Track Record Period, write down of inventories has been made due to slow-moving and obsolete inventories. Subcontracting costs represented subcontracting processing or manufacturing charges by the Independent Third Party manufacturers to process or manufacture certain products.

The Group's cost of sales were approximately HK\$32.4 million and HK\$34.8 million, representing approximately 20.4% and 21.2% for the two years ended 31 March 2013 of the Group's total turnover. The increase in the cost of sales was primarily due to the change in product mix and the costs of free gifts bundled into products on special offer for the year ended 31 March 2013.

Provision for goods return

As the Distribution Facilitator has the right to return to the Group the unsold goods, the Group has instituted a policy of making provision for goods returned by the Distribution Facilitator pursuant to HKAS 37-Provisions, Contingent Liabilities and Contingent Assets, which represents the present value of the directors' best estimate of future outflow of economic benefits that will require under the Group's obligations under the goods return policy.

Based on the goods return report, the Group will charge the value of returned goods against the goods return provision as mentioned above. Provisions will be made to make the outstanding balance standing in the goods return provision to equal to 10% of the value of the Distribution Facilitator's

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stock-on-hand based on the stock-on-hand report. As a result, the Group's provision for goods return were approximately HK\$2.6 million and HK\$1.3 million for the two years ended 31 March 2013, respectively.

Write down of inventories

The Group accounted for its write down of inventories on a quarterly basis at each quarter-end. The write down of inventories (netted off with write-back) were approximately HK\$1.5 million and HK\$0.6 million for the two years ended 31 March 2013, respectively.

Gross profit and gross profit margin

	Year ended 31 March			
	2012		2013	
	<i>HK\$'000</i>	<i>Gross profit %</i>	<i>HK\$'000</i>	<i>Gross profit %</i>
Health supplements:				
Proprietary brands	86,565	81.9%	83,749	79.6%
Private label brands	<u>3,121</u>	<u>82.1%</u>	<u>12,843</u>	<u>86.1%</u>
	<u>89,686</u>	<u>81.9%</u>	<u>96,592</u>	<u>80.4%</u>
Beauty supplements and products:				
Proprietary brands	21,630	71.5%	20,051	73.7%
Private label brands	<u>14,769</u>	<u>79.7%</u>	<u>11,909</u>	<u>76.2%</u>
	<u>36,399</u>	<u>74.6%</u>	<u>31,960</u>	<u>74.6%</u>
Others	<u>259</u>	<u>48.0%</u>	<u>458</u>	<u>54.2%</u>
Total	<u><u>126,344</u></u>	<u><u>79.6%</u></u>	<u><u>129,010</u></u>	<u><u>78.8%</u></u>

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	Year ended 31 March			
	2012		2013	
	<i>HK\$'000</i>	<i>Gross Profit %</i>	<i>HK\$'000</i>	<i>Gross Profit %</i>
Proprietary brands:				
Health supplements	86,565	81.9%	83,749	79.6%
Beauty supplements and products	<u>21,630</u>	<u>71.5%</u>	<u>20,051</u>	<u>73.7%</u>
	<u>108,195</u>	<u>79.6%</u>	<u>103,800</u>	<u>78.4%</u>
Private label brands:				
Health supplements	3,121	82.1%	12,843	86.1%
Beauty supplements and products	<u>14,769</u>	<u>79.7%</u>	<u>11,909</u>	<u>76.2%</u>
	<u>17,890</u>	<u>80.1%</u>	<u>24,752</u>	<u>81.0%</u>
Others	<u>259</u>	<u>48.0%</u>	<u>458</u>	<u>54.2%</u>
Total	<u><u>126,344</u></u>	<u><u>79.6%</u></u>	<u><u>129,010</u></u>	<u><u>78.8%</u></u>

Cost of procurement, pricing and gross profit margins

The cost of procuring raw materials in powder form and raw materials in semi-finished products form are the Group's largest component of its cost of sales. The second largest cost component of the Group's cost of sales is the packaging material costs. All of the Group's suppliers are Independent Third Parties.

On the pricing side, the Group has the flexibility in determining, after consultation with the Distribution Facilitator, the wholesale and retail prices of the products. The Group determines the retail prices of the products sold through the Distribution Facilitator's stores based on various factors including prevailing prices of similar products available in the market, cost of procurement and marketing strategies for the products.

The gross profit margin of the Group is largely determined by the prices of the Group's products sold and the related costs of sales, which include raw materials costs, packaging materials costs, labour costs, writedown of inventories, provision for goods return, subcontracting costs, laboratory test fees. Depending on the difference between the wholesale/retail prices of a product and its related costs of sales, the product could generate high gross profit margins. During the Track Record Period, the Group managed its gross profit margin by developing and launching new products, which will meet comparable gross profit margins, with retail prices acceptable to the market.

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Other revenue and other net income

Other revenue and other net income primarily consist of gain on disposal of property, plant and equipment, bank interest income, other sundry income and exchange gains arising from settling trade payables denominated in U.S. dollars.

Selling and distribution expenses

The Group's selling and distribution expenses principally consist of (i) advertising and promotion expenses for advertisements through various channels including TV media, printed media, outdoor advertising and digital media as well as engagement of artistes to endorse the Group's products as brand ambassadors; (ii) commission paid to sales promoters; and (iii) exhibition expenses.

	Year ended 31 March			
	2012		2013	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Advertising and promotion expenses	20,366	66.2%	25,442	66.9%
Commission charges	8,377	27.2%	9,737	25.6%
Exhibition expenses	1,267	4.1%	1,354	3.6%
Others	<u>758</u>	<u>2.5%</u>	<u>1,485</u>	<u>3.9%</u>
Total	<u><u>30,768</u></u>	<u><u>100.0%</u></u>	<u><u>38,018</u></u>	<u><u>100.0%</u></u>

The Group's selling and distribution expenses increased by approximately HK\$7.2 million or 23.4% from approximately HK\$30.8 million to HK\$38.0 million for the two years ended 31 March 2013. It was primarily attributable to (i) the increase in advertising and promotion expenses including extensive promotions through TV commercials, newspapers, magazines as well as engagement of artistes to endorse the Group's products as brand ambassadors to enhance awareness of the Group's products among customers and reinforce brand loyalty, (ii) the increase in commission expenses as a result of the increase in sales generated by promoters while the average commission rate remains stable, and (iii) the increase in other expenses by approximately HK\$0.7 million mainly consisting of promotional coupons charged by the Distribution Facilitator.

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Administrative expenses

The administrative expenses mainly consist of salaries and staff related costs for administrative personnel (including the Directors), rent for SDCs, consultancy fees, traveling and entertainment expenses and research and development costs. The following table sets forth a breakdown for the major items of the Group's administrative expenses for the Track Record Period:

	Year ended 31 March			
	2012		2013	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Salaries	15,125	35.3%	21,522	47.1%
Rent for SDCs	8,882	20.7%	13,113	28.7%
Directors' emoluments	6,131	14.3%	780	1.7%
Mandatory provident fund and other staff benefit	2,413	5.6%	1,884	4.1%
Research and development costs	768	1.8%	2,074	4.5%
Listing-related expenses	2,804	6.5%	996	2.2%
Legal and professional fees	117	0.3%	647	1.4%
Provision/(reversal) for penalty	5	0.0%	(1,676)	(3.7%)
Others	<u>6,637</u>	<u>15.5%</u>	<u>6,395</u>	<u>14.0%</u>
Total	<u><u>42,882</u></u>	<u><u>100.0%</u></u>	<u><u>45,735</u></u>	<u><u>100.0%</u></u>

The Group's administrative expenses increased by approximately HK\$2.8 million or 6.5% from approximately HK\$42.9 million to HK\$45.7 million for the two years ended 31 March 2013, which was mainly attributable to increased salaries, rental expenses and research and development costs. The increase was partially offset by the decrease in Directors' emoluments and listing expenses, as well as the reversal of the tax penalty previously provided.

The total estimated listing related expenses (excluding underwriting commission) in connection with the issuing of new shares comprising principally professional fees and printing costs of the prospectus are expected to amount to approximately HK\$22.7 million. For the years ended 31 March 2012 and 2013, the Group incurred listing related expenses amounting to approximately HK\$4.8 million and HK\$3.0 million respectively, of which approximately HK\$2.8 million and HK\$1.0 million was expensed to profit and loss respectively. The remaining listing related expenses for the years ended 31 March 2012 and 2013 of approximately HK\$2.0 million and HK\$2.0 million respectively will be deducted from equity upon successfully Listing. For the year ending 31 March 2014, the listing related expenses are estimated to be approximately HK\$14.9 million of which approximately HK\$13.4 million will be expensed to profit and loss and the remainder of approximately HK\$1.5 million will be deducted from equity upon successfully Listing in accordance with HKAS 32. It must be emphasised that amount of such listing related expenses is a current estimate for reference only and the final amount to be expensed to profit and loss of the Group for the year ending 31 March 2014 is subject to audit and changes in variables and assumptions at the relevant time.

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Finance costs

During the Track Record Period, the Group's finance costs consist of interest expenses on bank borrowings and finance charges on obligations under a finance lease. Please refer to "Appendix I — Note 7(c)" for details.

Taxation

The Group is subject to Hong Kong Profits Tax at 16.5% of the estimated assessable profit of the Group during the Track Record Period. No provision for profits tax in the Cayman Islands and BVI have been made as the Group has no income assessable for tax in these jurisdictions during the Track Record Period. The table below sets forth the reconciliation between income tax expenses and accounting profit at the applicable tax rates:

	For the year ended	
	31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	<u>52,594</u>	<u>46,484</u>
Tax at the applicable tax rate of 16.5%	8,678	7,670
Tax effect of non-taxable income	(2)	(483)
Tax effect of non-deductible expenses	821	613
Tax effect of tax losses not recognised	184	224
Utilisation of tax losses previously not recognised	—	(6)
Special tax reduction ¹	(48)	(40)
Other	<u>(71)</u>	<u>(758)</u>
Income tax expenses	<u>9,562</u>	<u>7,220</u>

The effective tax rates for the two years ended 31 March 2013 were approximately 18.2% and 15.5%. The Group's lower effective tax rate for the year ended 31 March 2013 as compared to the previous financial year was primarily due to higher non-taxable income² and accrual made for accounting purposes on an estimated basis, which was not deductible for tax purposes until settled in the year ended 31 March 2013.

¹ A one-off reduction of Hong Kong Profits Tax by 75%, subject to ceiling of HK\$12,000 and HK\$10,000 per each company for the year of assessment 2011/12 and 2012/13, respectively.

² Reversal of tax penalty provision and gain on disposal of property.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF THE OPERATIONS

Year ended 31 March 2013 compared with year ended 31 March 2012

Revenue

The Group's revenue increased by approximately HK\$5.0 million or 3.1% from approximately HK\$158.8 million to HK\$163.8 million for the two years ended 31 March 2013, which was the net effect of an increase in sales of health supplements and a decrease in sales in beauty supplements and products. The Group's revenue attributable to health supplements increased by approximately HK\$10.6 million or 9.7% from approximately HK\$109.5 million to HK\$120.1 million, while its revenue attributable to beauty supplements and products decreased by approximately HK\$6.0 million or 12.3% from approximately HK\$48.8 million to HK\$42.8 million, for the two years ended 31 March 2013.

Proprietary brand health supplements

The Group's revenue attributable to proprietary brands health supplements declined by approximately HK\$0.5 million or 0.5% from approximately HK\$105.7 million to HK\$105.2 million for the two years ended 31 March 2013. The reduction in revenue was primarily due to the reallocation of sales promoters marketing private label "Health Proof" products, which were primarily health supplements.

According to the Group's sales records, the total quantity of proprietary brand health supplements sold decreased from approximately 632,000 units to 616,000 units for the two years ended 31 March 2013. However, out of the approximately 632,000 units sold in the year ended 31 March 2012, 627,000 units were single items and 5,000 units were bundled into multi-purchase sets. These multi-purchase sets comprised of approximately 49,000 units of single items of products and 4,000 units of free gifts. Therefore, it is equivalent to approximately 680,000 units of single items. Out of the approximately 616,000 units sold in the year ended 31 March 2013, 606,000 units were single items and 10,000 units were bundled into multi-purchase sets. These multi-purchase sets comprised of approximately 90,000 units of single items of products and 8,000 units of free gifts. Therefore, it is equivalent to approximately 704,000 units of single items. Based on the above breakdown, the number of units of single items sold by the Group actually increased by approximately 24,000 units of single items or 3.5% for the two years ended 31 March 2013.

During the year ended 31 March 2013, the Group introduced 5 new products under proprietary brand health supplements and approximately 29,000 units of single items were sold, which generated approximately HK\$6.2 million of revenue. The average unit price was therefore approximately HK\$214.

Excluding the 5 new products above, the remaining products under proprietary brand health supplements, approximately 675,000 units of single items were sold and generated approximately HK\$99.0 million of revenue. The average unit price was therefore approximately HK\$147.

As at 31 March 2012, the Group had 19 proprietary brand health supplements and approximately 680,000 units of single items were sold and generated approximately HK\$105.7 million of revenue for the year ended 31 March 2012. The average unit price was therefore approximately HK\$155.

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Proprietary brand beauty supplements and product

Revenue attributable to proprietary brands beauty supplements and product decreased by approximately HK\$3.1 million or 10.2% from approximately HK\$30.3 million to HK\$27.2 million for the two years ended 31 March 2013. The reduction in revenue was primarily due to the reallocation of sales promoters marketing private label Health Proof products which were primarily health supplements.

According to the Group's sales records, the total quantity of proprietary brand beauty supplements and products sold by the Group decreased by approximately 12,000 units from approximately 285,000 units to 273,000 units for the two years ended 31 March 2013. These units were all single items and there was no multi-purchase set offered.

During the year ended 31 March 2013, the Group introduced 4 new products under proprietary brand beauty supplements and products and approximately 23,000 units of single items were sold, which generated approximately HK\$2.7 million of revenue. The average unit price was therefore approximately HK\$117.

Excluding the 4 new products above, the remaining products under proprietary brand beauty supplements and products, approximately 250,000 units of single items were sold and generated approximately HK\$24.5 million of revenue. The average unit price was therefore approximately HK\$98.

As at 31 March 2012, the Group had 15 proprietary brand health supplements and approximately 285,000 units of single items were sold and generated approximately HK\$30.3 million of revenue for the year ended 31 March 2012. The average unit price was therefore approximately HK\$106.

Distribution Facilitator's private label health supplements

The revenue attributable to private label brand increased by approximately HK\$11.1 million or 292.1% from approximately HK\$3.8 million to HK\$14.9 million for the two years ended 31 March 2013. The increase in revenue attributable to private label brands was primarily due to the expansion of the product range and increase in the number of Health Proof SDCs, which primarily sold health supplements. The Health Proof brand was launched and the first Health Proof SDC was established in September 2011. As at 31 March 2012, there were 25 Health Proof products and 7 Health Proof SDCs. As at 31 March 2013, there were 38 Health Proof products and 10 Health Proof SDCs.

According to the sales record of the Group, the total quantity of the Distribution Facilitator's private label health supplements sold by the Group increased by approximately 61,000 units from approximately 59,000 units to 120,000 units for the two years ended 31 March 2013. The approximately 59,000 units sold in the year ended 31 March 2012 were all single items and there was no multi-purchase set offered. Out of the approximately 120,000 units sold in the year ended 31 March 2013, 119,000 units were single items of products and 1,000 units were bundled into multi-purchase sets. These multi-purchase sets comprised of approximately 6,000 units of single items of products. Therefore, it is equivalent to approximately 125,000 units of single items. Based on the above breakdown, the number of units of single items sold by the Group increased by approximately 66,000 units of single items or 111.9% for the two years ended 31 March 2013.

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During the year ended 31 March 2013, the Group introduced 14 new products under the Distribution Facilitator's private label brands ("Health Proof": 13 and "Kiwi Lab": 1) and approximately 13,000 units of single items were sold, which generated approximately HK\$3.0 million of revenue. The average unit price was therefore approximately HK\$231.

Excluding the 14 new products above, the remaining products under the Distribution Facilitator's private label brands, approximately 112,000 units of single items were sold and generated approximately HK\$11.9 million of revenue. The average unit price was therefore approximately HK\$106.

As at 31 March 2012, the Group had 24 Distribution Facilitator's private label health supplements and approximately 59,000 units of single items were sold and generated approximately HK\$11.1 million of revenue for the year ended 31 March 2012. The average unit price was therefore approximately HK\$188.

Distribution Facilitator's private label beauty supplements and products

The revenue attributable to private label brands decreased by approximately HK\$2.9 million or 15.7% from approximately HK\$18.5 million to HK\$15.6 million for the two years ended 31 March 2013. The Group reallocated resources to market the Health Proof products which were primarily health supplements, as a result, the revenue attributable to beauty supplements and products decreased for the year ended 31 March 2013 compared with the previous year.

According to the Group's sales record, the total quantity of private label beauty supplements and products sold by the Group decreased by approximately 13,000 units or 10.9% from approximately 119,000 to 106,000 units for the two years ended 31 March 2013. The approximately 119,000 units sold in the year ended 31 March 2012 were all single items and no multi-purchase set was offered. Out of the approximately 106,000 units sold in the year ended 31 March 2013, the majority units were single items.

During the year ended 31 March 2013, the Group introduced 3 new products under the Distribution Facilitator's private label brands beauty supplements and products ("Health Proof": 1 and "Kiwi Lab": 2) and approximately 76,000 units of single items were sold, which generated approximately HK\$10.4 million of revenue. The average unit price was therefore approximately HK\$137.

Excluding the 3 new products above, the remaining products under the Distribution Facilitator's private label brands beauty supplements and products, approximately 30,000 units of single items were sold and generated approximately HK\$5.2 million of revenue. The average unit price was therefore approximately HK\$173.

As at 31 March 2012, the Group had 5 Distribution Facilitator's private label brands beauty supplements and products and approximately 119,000 units of single items were sold and generated approximately HK\$18.5 million of revenue for the year ended 31 March 2012. The average unit price was therefore approximately HK\$155.

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Cost of sales and gross profit

The Group's cost of sales increased by HK\$2.4 million or 7.4% from approximately HK\$32.4 million to HK\$34.8 million for the two years ended 31 March 2013. Raw material costs and packing material costs increased by HK\$4.7 million or 25.3% from HK\$18.6 million to HK\$23.3 million for the two years ended 31 March 2013. The number of units of products sold by the Group increased by approximately 1.8% for the year ended 31 March 2013 compared with the previous year. The unit costs of sales increased by 5.2% for the year ended 31 March 2013 compared with the previous year. The increase in unit cost of sales was primarily attributable to products bundled into multi-purchase units, which were offered to the general public consumers at more attractive prices than purchased in singularity. Such multi-purchase units were offered at ad hoc promotions and at special sales events (出位價) promotions. The prices of the underlying materials, such as raw materials in powder form and semi-finished products in capsules, tablets, caplets, sachets or syringe forms have not experienced material changes.

As a result of an increase in the Group's revenue increasing by HK\$5.0 million and an increase in the Group's cost of sales increasing by HK\$2.4 million, the gross profit of the Group increased by HK\$2.7 million or 2.1% from approximately HK\$126.3 million to HK\$129.0 million for the two years ended 31 March 2013. The gross profit margin of the Group's health supplements was approximately 81.9% and 80.4% for the two years ended 31 March 2013, respectively. The gross profit margin of the Group's beauty supplements and products was approximately 74.6% and 74.6% for the two years ended 31 March 2013. The Group offered more free gifts bundled into products for the year ended 31 March 2013 compared with the previous year, and as a result, the Group's total gross profit margin slightly decreased by approximately 0.8% from approximately 79.6% to 78.8% for the two years ended 31 March 2013.

Other revenue and other net income

The Group's other revenue increased by HK\$1,306,000 from approximately HK\$31,000 to HK\$1,337,000, which was mainly due to the gain of approximately HK\$1,246,000 on disposal of a property.

Selling and distribution expenses

Selling and distribution expenses increased by HK\$7.2 million or 23.4% from approximately HK\$30.8 million to HK\$38.0 million for the two years ended 31 March 2013, which represented approximately 19.4% and 23.2% of the Group's total revenue for the corresponding years. The increase was primarily attributable to (i) the increase in advertising and promotional expenses by approximately HK\$5.1 million due to increased promotions through TV commercials, newspapers, magazines as well as engagement of artistes to endorse the Group's products as brand ambassadors to enhance awareness of the Group's products among customers and reinforce brand loyalty and other promotional activities; (ii) the increase in commission charges by approximately HK\$1.4 million as a result of the increase in sales generated by promoters; and (iii) the increase in other expenses by approximately HK\$0.7 million mainly consisting of promotional coupons charged by the Distribution Facilitator.

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Administrative expenses

The administrative expenses increased by approximately HK\$2.8 million or 6.5% from approximately HK\$42.9 million to HK\$45.7 million for the two years ended 31 March 2013. The increase was primarily attributable to (i) the increase in salaries by approximately HK\$ 6.4 million due to the increase in headcounts and the addition of certain senior management positions to accommodate the future expansion plan of the Group, (ii) the increase in rental expenses for SDCs by approximately HK\$4.2 million as a result of the expansion of sales network, and (iii) the increase in research and development costs in relation to the preliminary clinical trials. The above mentioned increases were partially offset by the decrease in directors' emoluments and listing related expenses, as well as the reversal of the tax penalty previously provided.

Finance costs

The finance costs decreased by approximately HK\$21,000 or 16.0% from approximately HK\$131,000 to HK\$110,000 for the two years ended 31 March 2013. The decrease was mainly due to the repayment of the bank loans in relation to mortgages during the year ended 31 March 2013.

Profit before taxation

The Group's profit before taxation decreased by HK\$6.1 million or 11.6% from approximately HK\$52.6 million to HK\$46.5 million for the two years ended 31 March 2013, while the percentage of the profit before taxation to total revenue decreased from approximately 33.1% to 28.4% for the two years ended 31 March 2013.

Taxation

Taxation decreased by approximately HK\$2.4 million or 25.0% from approximately HK\$9.6 million to HK\$7.2 million for the two years ended 31 March 2013, while the effective tax rates were approximately 18.2% and 15.5%, respectively. The decrease in effective tax rate was primarily due to the higher non-taxable income and higher deductible temporary difference not recognized for the year ended 31 March 2013.

Profit and total comprehensive income

As a result of the foregoing factors, the Group's net profit decreased by approximately HK\$3.7 million or 8.6% from approximately HK\$43.0 million to HK\$39.3 million for the two years ended 31 March 2013, while its percentage to total revenue decreased from approximately 27.1% to 24.0% for the two years ended 31 March 2013.

SELECTED DATA ON COMBINED STATEMENTS OF FINANCIAL POSITION

The Group's net current assets were approximately HK\$23.1 million and HK\$21.8 million as at 31 March 2012 and 2013, respectively. The Group's net assets were approximately HK\$39.3 million and HK\$38.6 million as at 31 March 2012 and 2013, respectively. The decrease in net assets was the net effect of the profit for the year ended 31 March 2013 of approximately HK\$39.3 million and dividends

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declared in the same period of HK\$40.0 million. The table below sets forth the combined statements of financial position extracted from the Accountants' Report in Appendix I of this prospectus during the Track Record Period:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	16,303	16,868
Current assets		
Inventories	11,109	12,765
Trade and other receivables	27,304	32,572
Pledged bank deposit	—	5,000
Cash and cash equivalents	34,812	15,708
Tax recoverable	—	16
	<u>73,225</u>	<u>66,061</u>
Current liabilities		
Trade and other payables	21,694	13,202
Obligations under finance lease	90	47
Secured bank loans	4,020	3,491
Amounts due to related parties	2,418	26,529
Tax payables	21,076	—
Provisions	860	1,038
	<u>50,158</u>	<u>44,307</u>
Net current assets	<u>23,067</u>	<u>21,754</u>
Total assets less current liabilities	<u>39,370</u>	<u>38,622</u>
Non-current liabilities		
Obligations under finance lease	47	—
Deferred tax liabilities	36	71
	<u>83</u>	<u>71</u>
Net assets	<u><u>39,287</u></u>	<u><u>38,551</u></u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	—	—
Reserves	39,287	38,551
	<u>39,287</u>	<u>38,551</u>
TOTAL EQUITY	<u><u>39,287</u></u>	<u><u>38,551</u></u>

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Inventory

The inventories of the Group comprise raw materials, packaging materials and finished goods. The following table sets forth a breakdown of inventory balances as at 31 March 2012 and 2013:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	7,433	8,939
Packaging materials	1,275	1,809
Finished goods	2,401	2,017
	11,109	12,765

The following table sets forth the turnover days of the Group's inventories for the years below:

	For the year ended 31 March	
	2012	2013
	<i>days</i>	<i>days</i>
Inventories turnover days ⁽¹⁾	94	125

(1) The inventories turnover days were calculated using the average of the beginning and ending inventory balances of the year, divided by cost of sales for the year and multiplied by 365 in respect of the year indicated.

The inventories increased by approximately HK\$1.7 million or 15.3% from approximately HK\$11.1 million to HK\$12.8 million, as at 31 March 2012 and 2013, respectively. The Group's total inventory turnover days increased from 94 days to 125 days for the two years ended 31 March 2013. The increase was primarily due to the increase in inventory level of raw materials for the earlier launch of new products compared with the previous year. In the year ended 31 March 2013, the Group expanded its product range by launching 26 new products of which, 19 products belong to the health supplements and 7 products belong to the beauty supplements and products segments, respectively. Such products are supplied by manufacturers in semi-finished product forms and are subject to minimum ordering quantities requirements. The objective is to manage the Group's inventory level sufficient to meet market demand. In doing so, the Group would have to take into consideration of (i) delivery lead time of materials; and (ii) processing time for activities such as, where applicable, lab safety testing, encapsulation, bottling, packaging and so forth; to produce finished goods ready for sale. Based on the past experience and records, a three months inventory level including finished goods and ready-to-use raw materials in semi-finished products form would assist the Group in meeting market demand.

The shelf life of the Group's finished products, which is determined based on dates specified by suppliers, is generally between 2 to 3 years.

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The following table sets forth a breakdown of inventory balances by product segments as at 31 March 2012 and 2013:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Health supplements		
Proprietary brands	6,860	5,572
Private label brands	<u>1,120</u>	<u>2,696</u>
	<u>7,980</u>	<u>8,268</u>
Beauty supplements and products		
Proprietary brands	1,903	2,502
Private label brands	<u>1,226</u>	<u>1,995</u>
	<u>3,129</u>	<u>4,497</u>
Total	<u>11,109</u>	<u>12,765</u>

Up to 31 August 2013, the Group's subsequent sales and usage of the inventories as at 31 March 2013 totaled approximately HK\$9.1 million, representing 70.9% of its outstanding balances.

Trade and other receivables

The following table sets forth a breakdown of trade and other receivables as at 31 March 2012 and 2013:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	22,277	24,090
Deposits paid relating to the Placing	1,963	3,957
Deposits paid to suppliers	2,202	2,984
Prepayments for ambassadors	—	368
Other prepayments and deposits	<u>862</u>	<u>1,173</u>
	<u>27,304</u>	<u>32,572</u>

Trade and other receivables increased by approximately HK\$5.3 million or 19.4% from approximately HK\$27.3 million to HK\$32.6 million as at 31 March 2012 and 2013. The increase is primarily attributable to (i) increase in account receivables by approximately HK\$1.8 million as a result

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of increase in sales of products through the Distribution Facilitator, (ii) increase in deposits paid in relation to the placing by approximately HK\$2.0 million, and (iii) increase in the deposits paid to the suppliers by approximately HK\$0.8 million.

The Group generally grants a credit term up to 120 days. The sales team is in charge of periodic collection tasks, and the finance team periodically verifies collection status with the sales team, monitors the aging of accounts receivables and prepares financial records. The table below sets out the aging analysis of the trade receivables based on the invoice dates as at the end of the reporting year:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	22,236	23,726
91 to 180 days	11	290
Over 180 days	30	74
	22,277	24,090

Approximately 99.8% and 98.5% of trade receivables are aging within 90 days as at 31 March 2012 and 2013, respectively. Included in the trade receivables, approximately HK\$30,000 and HK\$74,000 were aging over 180 days as at 31 March 2012 and 2013, respectively. The Group had reviewed the credit quality of each receivable balance. The amounts involved are immaterial and the Group does not foresee any material collection problem on these overdue balances and the amounts are still considered recoverable.

The following table sets forth the trade receivable turnover days for the year below:

	For the year ended 31 March	
	2012	2013
	<i>days</i>	<i>days</i>
Trade receivables turnover days ⁽¹⁾	45	52

(1) The trade receivables turnover days were calculated using the average of the beginning and ending trade receivables (less allowance for doubtful debts) balances of the year, divided by revenue for the year and multiplied by 365 in respect of the year indicated.

The Group's trade receivable turnover days increased from approximately 45 to 52 days for the two years ended 31 March 2013, which was primarily due to the Distribution Facilitator taking long to settle payments.

Up to 31 August 2013, the Group's subsequent settlement of trade receivables as at 31 March 2013 totaled approximately HK\$23.7 million, representing 98.3% of its outstanding balances.

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Trade and other payables

The following table sets forth a breakdown of trade and other payables as at 31 March 2012 and 2013:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	4,181	3,013
Payroll and welfare payables	8,489	3,317
Advertising and promotion accruals	3,971	4,346
Penalty accruals	1,962	—
Professional fee accruals	2,616	2,157
Other payables and accruals	475	369
	21,694	13,202

Trade payables primarily include payables to our raw material suppliers. The Group generally enjoys credit terms of 30 to 45 days.

Payroll and welfare accruals consist of accrued salaries, bonus, mandatory provident fund and other staff welfares.

Advertising and promotion accruals consist of advertising expenses that have been recognised during the year but have not yet been paid as at reporting year end. Advertising and promotion accruals increased by approximately HK\$0.3 million or 7.5% from approximately HK\$4.0 million to HK\$4.3 million as at 31 March 2012 and 2013, which was primarily due to the Group's increased level of advertising and promotional activities.

The penalty accrual represents one-off additional tax imposed by the IRD for not filing tax returns on time and delayed notification of chargeability of the Group, the amount of which had been fully settled in February 2013.

The below table sets out the ageing analysis of the trade payables based on the invoice dates as at the end of the reporting year:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 90 days	2,793	1,444
91 to 180 days	112	278
181 days to 1 year	10	15
Over 1 year	1,266	1,276
	4,181	3,013

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Approximately 66.8% and 47.9% of trade payables were aging within 90 days as at 31 March 2012 and 2013, respectively. As at 31 March 2012, trade payables aged over 1 year of approximately HK\$271,000 and HK\$995,000 were attributable to a packaging material supplier and a large scale local retail chain in Hong Kong, respectively. As at 31 March 2013, trade payables aged over 1 year of approximately HK\$281,000 and HK\$995,000 were attributable to the said packaging material supplier and the said large scale local retail chain in Hong Kong, respectively.

The total purchase of packaging materials from the said supplier amounted to approximately HK\$1.3 million and HK\$0.8 million for the two year ended 31 March 2012, respectively. According to the management, the Group has not yet made the payment because certain details in the invoices have not been clarified with said supplier. However, the Group has not been able to contact the said supplier to clarify the details since late 2011 and therefore the outstanding invoices are still outstanding as at the Latest Practicable Date.

The amount attributable to the large scale local retail chain in Hong Kong represents the expenses payable by A.S. Wat Hong Kong Limited and A.S. Wat International Limited. Since the actual amount and details of the expenses have not yet been confirmed by both parties, the expenses remain unsettled. As at the Latest Practicable Date, A.S. Wat Hong Kong Limited and A.S. Wat International Limited were disposed to Mr. Chan and/or his associate as part of the reorganisation of the Group as set out in the Prospectus.

The following table sets forth the trade payable turnover days for the year below:

	For the year ended 31 March	
	2012	2013
	<i>Days</i>	<i>Days</i>
Trade payables turnover days ⁽¹⁾	42	38

⁽¹⁾ The trade payables turnover days were calculated using the average of the beginning and ending trade payable balances of the year, divided by cost of sales for the year and multiplied by 365 in respect of the years indicated.

The Group's trade payable turnover days decreased from approximately 42 days to 38 days for the two years ended 31 March 2013, which was primarily due to increase in purchases from the suppliers who require advance payments.

Up to 31 August 2013, the Group's subsequent settlement of trade payables as at 31 March 2013 totaled approximately HK\$1.7 million, representing 57.7% of its outstanding balances.

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NET CURRENT ASSETS

The following table sets out details of the Group's net current assets as at the dates indicated:

	As at 31 March		As at 31 August
	2012	2013	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)
Current assets			
Inventories	11,109	12,765	14,801
Trade and other receivables	27,304	32,572	24,853
Pledged bank deposit	—	5,000	—
Cash and cash equivalents	34,812	15,708	7,985
Tax recoverable	—	16	1,469
	73,225	66,061	49,108
Current liabilities			
Trade and other payables	21,694	13,202	17,923
Obligations under finance lease	90	47	8
Secured bank loans	4,020	3,491	3,266
Amounts due to related parties ¹	2,418	26,529	—
Tax payables	21,076	—	—
Provisions	860	1,038	973
	50,158	44,307	22,170
Net current assets	23,067	21,754	26,938

¹ The settlement of the amounts due to related parties of HK\$26.5 million as at 31 March 2013 will be funded by the Group's cash generated from operations. As at 31 August 2013, the amounts due were nil.

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LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The working capital and other capital requirements of the Group were principally satisfied by cash generated from its operation and its internal resources.

Cash Flow

The cash flow of the Group for the two years ended 31 March 2013 are summarised as below:

	Year ended 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from operating activities	47,488	911
Net cash used in investing activities	(5,979)	(5,786)
Net cash used in financing activities	<u>(30,651)</u>	<u>(14,229)</u>
Net increase/(decrease) in cash and cash equivalents	10,858	(19,104)
Cash and cash equivalents at beginning of year	<u>23,954</u>	<u>34,812</u>
Cash and cash equivalents at end of year	<u><u>34,812</u></u>	<u><u>15,708</u></u>

Operating activities

The Group derives its cash inflow from operation principally from the receipts of payments for sales of the Group's products. The Group's cash outflow from operation is principally for the raw material purchases, rental for SDCs, staff costs, commissions, advertising and promotion activities and miscellaneous expenses used in operating activities.

For the year ended 31 March 2013, the Group recorded net cash inflow from operating activities of approximately HK\$0.9 million, which was primarily comprised of operating profit before changes in working capital of approximately HK\$47.5 million and the adjusted net working capital outflow of approximately HK\$18.3 million and payment of income tax of approximately HK\$28.3 million in respect of years of assessment of 2010/2011, 2011/2012 and prepayment for 2012/2013. Two companies of the Group, namely Wisdom Health Products and Hong Kong Ever Spring, had not complied with the requirements of the Inland Revenue Ordinance. For the years of assessment 2009/2010 and 2010/2011, (i) Wisdom Health Products had not complied with the requirements under Section 51(1) of the Inland Revenue Ordinance to submit Profits Tax Return within the prescribed time limit. The delay was attributable to the restructuring of the Group and the finalisation of intercompany transactions; and (ii) Hong Kong Ever Spring had not complied with the requirements under Section 51(2) of the Inland Revenue Ordinance to inform the Inland Revenue Department of its chargeability within the prescribed time limit. The delay was unintentional and purely attributable to an oversight. In February 2013, the matter has been settled with the Inland Revenue Department and the Group's tax position for the years of assessment 2009/2010 (HK\$2.9 million), 2010/2011 (HK\$8.7 million) and 2011/2012 (HK\$9.5 million) and provisional tax for the year of assessment 2012/2013 (HK\$7.2 million) were finalised with the Inland Revenue Department. The amount of tax paid was approximately HK\$28.3 million during the year ended 31 March 2013. The respective tax advisers of Creation Chance and Rich Sunny confirmed

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that Creation Chance and Rich Sunny have duly discharged their obligations insofar as the Inland Revenue Ordinance is concerned, such as filing tax returns and paying taxes on time and therefore, no tax penalty is imposed by the Inland Revenue Department. The net working capital outflow was mainly due to the increase in inventories of approximately HK\$2.3 million, the increase in trade and other receivable of approximately HK\$5.3 million, the decrease in trade and other payables by approximately HK\$8.5 million, the decrease in amounts due to related parties of approximately HK\$2.4 million, and the outflow was partially offset by the increase in provisions for goods return of approximately HK\$0.2 million. Please refer to the section headed “Financial information — Inventory”, “Financial information — Trade and other receivables” and “Financial information — Trade and other payables” for the reasons of the increase in inventories and trade and other receivables as well as the reason of the decrease in trade and other payables, respectively.

For the year ended 31 March 2012, the Group recorded net cash inflow from operating activities of approximately HK\$47.5 million, which was primarily comprised of operating profit before changes in working capital of approximately HK\$55.1 million and adjusted of net working capital outflow of approximately HK\$7.5 million and payment of income tax of approximately HK\$0.1 million. The net working capital outflow was mainly due to the increase in inventories of approximately HK\$7.0 million, the increase in trade and other receivable of approximately HK\$6.4 million, the decrease in amounts due to related parties of approximately HK\$2.6 million and the decrease in provisions for goods return of approximately HK\$0.1 million, and the outflow was partially offset by the increase in trade and payables of approximately HK\$8.3 million and the decrease in amounts due from related parties of approximately HK\$0.3 million. The increase in trade and other payables was primarily attributable to the (i) increase in trade payables as a result of the increase in sales, (ii) increase in payroll and welfare payments mainly attributable to the accrued bonus amounting to HK\$5.0 million, (iii) increase in accruals for professional fees for the Placing. Please refer to the section headed “Financial information — Inventory”, “Financial information — Trade and other receivables” for the reasons of the increase in inventories as well as the increase in trade and other receivables respectively.

Investing activities

The Group derives its cash inflow from investing activities primarily from bank interest income. The Group’s cash outflow from investing activities consisted primarily of the purchase of property, plant and equipment and increase in pledged bank deposits.

Net cash used in investment activities was approximately HK\$5.8 million for the year ended 31 March 2013, which was primarily attributable to the purchase of the property, plant and equipment of approximately HK\$2.9 million, the increase in pledged bank deposits of approximately HK\$5.0 million, and this was partially offset by the proceeds received from the sale of property, plant and equipment of approximately HK\$2.1 million.

Net cash used in investment activities was approximately HK\$6.0 million for the year ended 31 March 2012. This was primarily due to the purchase of property, plant and equipment of approximately HK\$6.0 million for the year ended 31 March 2012.

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Financing activities

The Group derived its cash inflow from financing activities, which was primarily attributable to the proceeds from the bank loans. The Group's cash outflow from financing activities was mainly attributable to the repayment of bank loans, interest paid, payment of capital element of finance lease and interest element of finance lease, and repayment to related parties.

Cash used in financing activities was approximately HK\$14.2 million for the year ended 31 March 2013. This was primarily due to the decrease in amounts due to related parties of approximately HK\$13.5 million and aggregate amount of approximately HK\$0.7 million paid for the bank loans, interest payment, payment of capital element of finance lease and interest element of finance lease.

Cash used in financing activities was approximately HK\$30.7 million for the year ended 31 March 2012. This was primarily due to the repayment to related parties of approximately HK\$30.0 million and aggregate amount of approximately HK\$0.7 million for the repayment of bank loans, interest payment, payment of capital element of finance lease and interest element of finance lease.

Capital expenditure

The Group made capital expenditures of approximately HK\$6.0 million and HK\$2.9 million for the two years ended 31 March 2013, respectively, in connection with the Group's purchase of property, plant and equipment, which were primarily related to the Group's purchase of leasehold land and buildings for mainly office and warehouse of the Group and the corresponding expenditure on leasehold improvements. The Group financed its capital expenditure through bank loans and cash generated from operating activities.

Commitments

At the end of each reporting period, the Group had commitments for future minimum lease payment under non-cancellable operating leases falling due as follows:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	106	189
In the second to fifth year, inclusive	<u>57</u>	<u>132</u>
	<u>163</u>	<u>321</u>

WORKING CAPITAL

Taking into account the existing cash and bank balances of the Group, the expected cash generated from the operating activities of the Group and the estimated net proceeds from the Placing, the Directors are of the opinion that the Group has sufficient working capital for its present requirements for the next 12 months from the date of this prospectus.

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INDEBTEDNESS

Obligations under finance lease

	Total minimum lease payments			Present value of minimum lease payment		
	31 March 2012	31 March 2013	31 August 2013	31 March 2012	31 March 2013	31 August 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (unaudited)
Amounts payable:						
Within one year	96	48	8	90	47	8
After 1 year but within 2 years	<u>48</u>	<u>—</u>	<u>—</u>	<u>47</u>	<u>—</u>	<u>—</u>
	144	48	8	<u>137</u>	<u>47</u>	<u>8</u>
Less: Finance charges	<u>(7)</u>	<u>(1)</u>	<u>—</u>			
Present value of finance lease payables	137	47	8			
Less: Portion classified as current liabilities	<u>(90)</u>	<u>(47)</u>	<u>(8)</u>			
Non-current portion	<u>47</u>	<u>—</u>	<u>—</u>			

The finance lease obligations were secured by a motor vehicle of the Group with a carrying amount as at 31 March 2012: HK\$155,000 and 31 March 2013: HK\$104,000. The remaining lease payments outstanding are due within two years. Interest rate is fixed at 3.5% per annum. No arrangement has been entered into for contingent rental payment for the Track Record Period.

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Secured bank loans

The principal indebtedness of the Group was bank loans. The maturity profiles of the Group's bank loans are tabulated below:

	As at 31 March		As at
	2012	2013	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	2013
			<i>HK\$'000</i>
			(unaudited)
Portion of term loans due for repayment within one year	<u>529</u>	<u>544</u>	<u>550</u>
Term loans due for repayment			
after one year:			
— After 1 year but within 2 years	544	559	566
— After 2 years but within 5 years	1,725	1,691	1,575
— Over 5 years	<u>1,222</u>	<u>697</u>	<u>575</u>
	<u>3,491</u>	<u>2,947</u>	<u>2,716</u>
	<u><u>4,020</u></u>	<u><u>3,491</u></u>	<u><u>3,266</u></u>

The Group's banking facilities were secured by leasehold land and building with carrying amount of approximately HK\$6.5 million and HK\$6.3 million as at 31 March 2012 and 2013, respectively, while the unutilised banking facilities of the Group amounted to approximately HK\$7.8 million and HK\$15.1 million for the corresponding year. The unutilised banking facilities of the Group amounted to approximately HK\$12.6 million as at 31 August 2013.

The effective interest rates (which also equal to contracted interest rates) on the Group's variable-rate borrowings is carrying at 2.5% per annum below the Hong Kong Prime Rate of Chong Hing Bank for the Track Record Period.

All of the secured bank loans are subject to the fulfillment of covenants. If the Group were in breach of the covenants, the facilities drawn down would become repayable on demand. Certain bank loan agreements of the Group contain clauses which give the lender the right at its sole discretion to demand immediately repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

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Amounts due to related parties

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to a director		
— Chan Yan Tak	2,418	29
Amount due to ultimate holding company		
— Able Island	<u>—</u>	<u>26,500</u>
	<u>2,418</u>	<u>26,529</u>

The amounts were unsecured, interest-free and repayable on demand.

All outstanding balances due to related parties as at 31 March 2013 have been fully settled on 30 August 2013 by utilising internally generated cash flow from the Group's operations. The Group had a cash balance of HK\$8.0 million as at 31 August 2013. There is no material adverse impact on the Group's working capital requirement.

Gearing ratio

Gearing ratio represents total debt as a percentage of total equity. The Group's gearing ratios were approximately 10.6% and 9.2% as at 31 March 2012 and 2013, respectively. The decrease in the Group's gearing ratio during the Track Record Period was mainly attributable to the repayment of bank loans in relation to mortgages.

Contingent liabilities and guarantees

As at 31 March 2012 and 2013 as well as the Latest Practicable Date, the Group had no material contingent liabilities.

Off-balance sheet commitments and arrangements

As at 31 March 2012 and 2013 as well as the Latest Practicable Date, the Group had no off-balance sheet commitments or arrangements.

Subsequent changes

Save as disclosed, as at 31 August 2013, being the latest practicable date for determining indebtedness, the Group did not have any other material outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change to the indebtedness or contingent liabilities of the Group since 31 March 2013, the date of the latest audited consolidated financial statements of the Group.

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PROPERTY VALUATION

Asset Appraisal Limited, an independent property appraiser, has valued the property interests comprising the operations of the Group, as of 30 June 2013. Text of its letters, summary of valuation and valuation certificates issued by Asset Appraisal Limited are included in “Appendix III — Property Valuation Report” to this prospectus.

The properties of the Group were valued at a total amount of HK\$43.7 million as at 30 June 2013 by Asset Appraisal Limited. The revaluation surplus will not be recorded in the consolidated financial statements as the property interests of the Group are stated at cost less accumulated depreciation and any impairment losses. Disclosure of the reconciliation of the property interests and the valuation of such property interests are set out below:

	<i>HK\$'000</i> (unaudited)
Net book value of property interest of the Group as of 31 March 2013 as set out in Appendix I to this prospectus	12,998
Add: Disposal during the period between 1 April 2013 and 30 June 2013	—
Less: Depreciation during the period between 1 April 2013 and 30 June 2013	<u>100</u>
Net book value as of 30 June 2013	12,898
Valuation of property as of 30 June 2013	<u>43,700</u>
Revaluation surplus	<u><u>30,802</u></u>

KEY FINANCIAL RATIOS

The following table sets forth the Group’s major financial ratios during the Track Record Period:

	Year ended 31 March	
	2012	2013
Current ratio	1.5	1.5
Quick ratio	1.2	1.2
Return on equity	129.3%	100.9%
Return on assets	56.8%	45.5%

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Current ratio and quick ratio

The Group's current ratio is calculated by dividing current assets by current liabilities as at the end of the respective year, while quick ratio is calculated by dividing current assets (excluding inventories) by current liabilities as at the end of the respective year. The Group's current ratio and quick ratio remained stable at approximately 1.5 and 1.2 as at 31 March 2012 and 2013, respectively.

Return on equity

The Group's return on equity is calculated by dividing profit for the year by average of total equity as at the end of the respective period. The Group recorded a decrease in return on equity from approximately 129.3% to 100.9% for the two years ended 31 March 2013, which was primarily due to the decrease in net profit for the year ended 31 March 2013. Please refer to the section headed "Financial Information — Management Discussion and Analysis of the Result of the Operation — Year ended 31 March 2013 compared with year ended 31 March 2012" in the prospectus for the reason of the decrease in net profit.

Return on assets

The Group's return on assets is calculated by dividing profit for the year by the average of total assets at the end of the respective year. The Group recorded a decrease in return on assets from approximately 56.8% to 45.5% for the two years ended 31 March 2013. The decrease was mainly attributable to the decrease in net profit for the year ended 31 March 2013. Please refer to the section headed "Financial Information — Management Discussion and Analysis of the Result of the Operation — Year ended 31 March 2013 compared with year ended 31 March 2012" for the reason of the decrease in net profit.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Credit risk

The Group's credit risk is primarily attributable to its financial assets including trade and other receivables, cash at banks and deposits with banks. The Group's management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of the financial position and condition of the customers and debtors of the Group are performed on all customers and debtors requiring credit over a certain amount. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

In respect of trade and other receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. As at 31 March 2012 and 2013, the Group had a certain concentrations of credit risk of approximately 81.5% and 72.2% of the total trade and other receivables due from the Group's largest trade debtor, respectively, and 81.5% and 73.7% of the total trade and other receivables due from the Group's five largest trade debtors, respectively.

The credit risk on balances of cash and cash equivalents is low as these balances are placed with reputable financial institutions.

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Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity. During the Track Record Period, the Group has available unutilised banking facilities of approximately HK\$7.8 million and HK\$15.1 million as at 31 March 2012 and 2013, respectively.

Interest rate risk

The Group exposure to interest rate risk primarily relates to the Group bank borrowings with floating interest rates. As at 31 March 2012 and 2013, all of the Group's interest-bearing borrowings bore interest at floating rates and, in the Group management's opinion, the Group did not have significant exposure to interest rate risk. During the Track Record Period, the Group did not use any derivative financial instruments to manage the Group interest rate exposure. Currently, the Group does not have a specific policy to manage the Group's interest rate risk, but the Group has closely monitored its exposure to interest rates and may consider hedging interest rate risk if necessary.

Currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they related. The currencies giving rise to this risk are primarily United States dollars, the impact of foreign exchange rate fluctuations is insignificant as the Hong Kong dollar is pegged to the United States dollar.

EVENT AFTER THE TRACK RECORD PERIOD

(1) Subsequent financial statements

No audited financial statements have been prepared by the Company or any of its subsidiaries comprising the Group in respect of any period subsequent to 31 March 2013.

(2) Share option scheme

Pursuant to the sole shareholder's written resolutions passed on 24 September 2013, a share option scheme was conditionally adopted.

(3) Disposal of subsidiaries

- (i) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Mr. Chan Yan Tak, chairman and executive director of the Company, to dispose its entire interests in its subsidiary, Xaxon, at a consideration of HK\$1.00. The net liability of Xaxon as at 31 March 2013 amounted to approximately

FINANCIAL INFORMATION

HK\$9,000. The disposal is completed on 10 September 2013. Upon completion, Xaxon will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.

- (ii) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in Wealth International Group, at a consideration of HK\$1. The net liability of Wealth International Group as at 31 March 2013 amounted to approximately HK\$1,988,000. The disposal is completed on 10 September 2013. Upon completion, Wealth International Group will cease to be subsidiaries of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.
- (iii) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in its subsidiary, Men 100, at a consideration of HK\$1. The net liability of Men 100 as at 31 March 2013 amounted to approximately HK\$21,000. The disposal is completed on 10 September 2013. Upon completion, Men 100 will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.
- (iv) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in Royal Medic Management, at a consideration of HK\$1. The net liability of Royal Medic Management as at 31 March 2013 amounted to approximately HK\$23,000. The disposal is completed on 10 September 2013. Upon completion, Royal Medic Management will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.
- (v) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in Sky China, at a consideration of HK\$1. The net liability of Sky China as at 31 March 2013 amounted to approximately HK\$49,000. The disposal is completed on 10 September 2013. Upon completion, Sky China will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.
- (vi) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in Wise Medic, at a consideration of HK\$1. The net liability of Wise Medic as at 31 March 2013 amounted to approximately HK\$10,000. The disposal is completed on 11 September 2013. Upon completion, Wise Medic will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.

DISTRIBUTABLE RESERVES

The Company was incorporated on 5 December 2011 and has not carried on any business since the date of its incorporation. Accordingly the Company had no reserves available for distribution to the owner up to 31 March 2013.

FINANCIAL INFORMATION

DIVIDEND POLICY

The Group has declared dividends of approximately HK\$31.0 million and HK\$40.0 million to the shareholders of the companies now comprising the Group for the two years ended 31 March 2013, respectively. Other than such dividends, the Group has not made any other dividend distribution to the shareholders during the Track Record Period. The historical dividend distribution is not an indication or may not be used as a reference or basis to determine the level of future dividend distribution that the Company may declare in the future.

The payment and amount of any future dividend will be at the discretion of the Board after taking into account the financial and business conditions, earnings, capital requirements and availability, future prospects, contractual reasons, applicable laws and other relevant factors as it may deem relevant at such time. The Shareholders at a general meeting of the Group can approve any declaration of dividends, which may not exceed the amount recommend by the Board. As these factors and the payment of dividends is at the discretion of the Board, which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. In addition, the Company may from time to time to declare the quarterly and/or interim dividends as appear to the Board to be justified by the profits of the Group.

Subject to the factors described above, the Board of Directors currently intends to recommend at the relevant shareholders meetings an annual dividend of not less than 40% of the Group's net profit available for distribution to the Shareholders in the foreseeable future.

NO MATERIAL ADVERSE CHANGES

The Directors have confirmed that there has been no material adverse changes in the financial or trading position of the Group since 31 March 2013 (being the date to which the latest combined financial statements of the Group were prepared as set in the "Appendix I — Accountants' Report" to this prospectus) and there is no event or event since 31 March 2013 which would materially affect the information as shown in the accountant's report, in each case except as otherwise disclosed in this prospectus.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Placing on the Group's net tangible assets as at 31 March 2013 as if the Placing had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of the Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of the Group's net tangible assets had the Placing been completed as at 31 March 2013 or at any future date.

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The unaudited pro forma adjusted combined net tangible assets are calculated based on the Group audited combined net tangible assets attributable to owners of the Company as at 31 March 2013, as shown in the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus, and is adjusted as described below.

	Audited combined net tangible assets of the Group as of 31 March 2013 HK\$'000 (Note 1)	Estimated net proceeds from Placing HK\$'000 (Note 2)	Unaudited pro forma adjusted net tangible assets HK\$'000	Unaudited pro forma adjusted net tangible assets per Share HK\$ (Note 3)
Based on Placing Price of HK\$0.76 per Share	38,551	80,512	119,063	0.23
Based on Placing Price of HK\$1.07 per Share	38,551	119,488	158,039	0.31

Notes:

- (1) The audited combined net tangible assets attributable to the owners of the Company as at 31 March 2013 is arrived based on the Group's audited combined net tangible assets of approximately HK\$38,551,000 as at 31 March 2013 extracted from the accountants' report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Placing are based on the Placing Price of HK\$0.76 per Share or HK\$1.07 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. The calculation of the estimated net proceeds from the Placing does not take into account any Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Placing payable to the Company as described in note (2) and on the basis that a total of 515,000,000 Shares were in issue as at 31 March 2013 (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Placing and the Capitalisation Issue).
- (4) Details of valuation of the Company's properties interest as at 30 June 2013 are set out in Appendix III to this prospectus. The revaluation surplus or deficit will not be incorporated in the Company's financial statements for the year ending 31 March 2014. The Company's accounting policy is to state its leasehold land and building at cost less accumulated depreciation and any impairment loss in accordance with the relevant HKASs, rather than at revalued amounts. With reference to the valuation of the Company's property interests as set out in Appendix III to this prospectus, there was a revaluation surplus of the Company's properties of approximately HK\$30,802,000. If the revaluation surplus was incorporated in the Company's financial statements for the year ending 31 March 2014, an additional depreciation of approximately HK\$616,000 per annum would be incurred.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES

The Group intends to further strengthen the brand recognition of its products among the general public customers and reinforce the Group's strong market position in the health supplements and beauty supplements and products markets in Hong Kong. The Group also aims to further expand the Group's business operations both in Hong Kong and overseas.

BUSINESS STRATEGIES

The Group endeavours to achieve its business objectives and adopts the following business strategies in accordance with the schedule set out in the paragraph headed "Implementation plan" in this section. The respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed "Bases and assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out under the section headed "Risk Factors" in this prospectus. Therefore, there is no assurance that the Group's business plans will materialise in accordance with the estimated time frame and that the Group's future plans will be accomplished at all.

Expanding the Group's distribution network by increasing the number of SDCs in the stores of the Distribution Facilitator

The Group believes that its extensive distribution network is essential to the success of its business. The Group will continue to develop and expand its existing distribution by expanding the number of its SDCs at the Distribution Facilitator's stores. As at the Latest Practicable Date, the Group had 15 Royal Medic SDCs and 12 Health Proof SDCs at the Distribution Facilitator's stores in Hong Kong. Royal Medic SDCs are set up with an aim to promoting and selling the Group's proprietary brands and the Distribution Facilitator's private label, "Kiwi Lab", products, whereas Health Proof SDCs are set up with an aim to promoting and selling the Distribution Facilitator's private label "Health Proof" products. All SDCs are designed by and built at the expense of the Group (including the Health Proof SDCs). The Group also employs promoters to station at each of the SDCs to promote and sell the products directly to the general public consumers. The Group is planning to set up another ten SDCs in the Distribution Facilitator's stores by 31 March 2015. The Group believes that by increasing the number of the SDCs, it will effectively enhance the sales of the Group's products and strengthen the brand recognition among the general public customers.

Further strengthening the Group's portfolio by collaborating with CUCAMed to develop products

The Group believes that its long-term success and growth will largely depend on the reputation of its brands, its ability to improve its existing products and develop new products that meet consumers' expectations. The Group plans to further expand its product portfolio as market recognition of and demand for health supplements continues to grow. As at the Latest Practicable Date, the Group offers 22 health supplements under its proprietary brands. The Group also offers 36 health supplements under the Distribution Facilitator's private label brands. Strong product pipeline enables the Group to continue to diversify its product portfolio by introducing new or improved products under optimal market timing and conditions.

FUTURE PLANS AND USE OF PROCEEDS

The Group is in cooperation with CUCAMed Company Limited (中大中醫藥科技有限公司) (“**CUCAMed**”) to develop new health supplements under the new brand of “LEGEND”. CUCAMed is a wholly-owned subsidiary of The Chinese University of Hong Kong Foundation Limited. It is a Chinese medicine technology company which serves as a commercial arm of the Institute of Chinese Medicine of The Chinese University of Hong Kong.

In July 2013, the Group entered into a cooperation agreement with CUCAMed. Under the agreement, CUCAMed is responsible for the research and development of a series of new PCM and health supplements. The Group is entitled to select the new products developed by CUCAMed which will be exclusively distributed and sold by the Group. The Group is entitled to design, register and own the trademark and brand name of such products. CUCAMed will assist the Group in registering new products where necessary, the promotion and sales of new products as well as supervising the quality control aspect of the new products and the Group is responsible for procurement of raw materials, production and sales of the new products. Please refer to the paragraph headed “Collaboration with external research partners” under the “Business” section in this prospectus for further details.

Further enhancing the Group’s marketing and promotion activities locally and overseas

The Group places great emphasis on and huge efforts in marketing and promoting its brands and products as the Group believes that its success in brand-building is mainly attributable to the outstanding quality of its products as well as its continuing efforts it put in marketing and promotions.

The Group has adopted a multi-faceted marketing strategy to market and promote its brands and products. The Group implements its branding and marketing strategies through various media and channels, such as television commercials, printed media, digital media, outdoor advertising, in-store promotion, the Wisdom Club, and product road shows. Through the extensive scope of its marketing and promotional activities, the Group believes that it has effectively and quickly gained recognition and high level of awareness of its brands in Hong Kong. Therefore, the Group plans to further strengthen its marketing and promotion strategies by engaging more brand ambassadors and intensifying its marketing and promotion activities.

The Group launched its products in Macau in 2010 through the Distribution Facilitator. In view of the growth of the Group’s sales and the feedback received relating to its products from Macau, the Group believes that its products not only appeal to consumers in Hong Kong but also attract consumers outside Hong Kong. Accordingly, the Group plans to further explore markets outside Hong Kong, such as countries which have a large population of ethnic Chinese and have accepted significant influence by Chinese culture.

The Group currently plans to invest in and develop the market in Taiwan by introducing its Royal Medic products to the market. The Group will also engage brand ambassador well-known amongst the Taiwanese consumers and carry out marketing activities such as advertisement through various media and channels and other marketing campaigns. The Group will also set up its own promoter team in Taiwan. The Group believes that the exploration of new market will enable the Group to increase its sales and raise awareness of its brands and products overseas.

The maximum working capital requirement for the operations in Taiwan for the two years ending 31 March 2015 is expected to be under HK\$10 million. The budgeted capital expenditure is expected to be approximately HK\$1 million. Both the working capital requirement and capital expenditure will be

FUTURE PLANS AND USE OF PROCEEDS

funded by internally generated cashflow. In general, the Group is targeting the Taiwan operations to breakeven or become profitable in the second full financial year after its establishment. For details of the expansion plan of the Group in Taiwan, please refer to the paragraph headed “Expansion into Taiwan market” under the “Business” section in this prospectus for further details.

IMPLEMENTATION PLAN

The Group will endeavour to achieve the following milestone events during the period from 1 October 2013 to 31 March 2015, and their respective scheduled completion times are based on certain bases and assumptions as set out in paragraph headed “Bases and assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed “Risk Factors” in this prospectus. Therefore, there is no assurance that the Group’s business plans will materialise in accordance with the estimated time frame and that the Group’s future plans will be accomplished at all.

For the period from 1 October 2013 to 31 March 2014

Strategies	Implementation activities
Expansion of distribution network	<ul style="list-style-type: none">● To set up about 3–5 new SDCs in the Distribution Facilitator’s stores in Hong Kong● To employ more promoters to station at the SDCs to promote and sell the Group’s products directly to the general public consumers in Hong Kong
Collaboration with CUCAMed Company Limited to develop products	<ul style="list-style-type: none">● To launch more new health supplements under the brand of “LEGEND”● To continue engaging brand ambassadors to promote the products● To strengthen the Group’s branding and marketing strategies through various media and channels, such as television commercials and printed media
Expanding overseas markets	<ul style="list-style-type: none">● To continue engaging brand ambassadors who are well-known amongst the Taiwanese consumers to promote the Group’s products in Taiwan● To expand the Group’s sales team by recruiting more promoters who will be assigned to station at the selected Taiwan Distribution Facilitator’s stores to promote and sell the Group’s products directly to the general public consumers in Taiwan

FUTURE PLANS AND USE OF PROCEEDS

Strategies

Implementation activities

- To strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials and printed media, in Taiwan
- Enhancing the Group's marketing and promotion activities in Hong Kong**
- To continue engaging brand ambassadors to promote the Group's products in Hong Kong
 - To strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials and printed media, in Hong Kong
 - To engage a reputable university to conduct preliminary clinic trials on the Group's products

For the period from 1 April 2014 to 30 September 2014

Strategies

Implementation activities

- Expansion of distribution network**
- To set up about 1–3 new SDCs in the Distribution Facilitator's stores in Hong Kong
 - To employ more promoters to station at the SDC to promote and sell the Group's products directly to the general public consumers in Hong Kong
- Collaboration with CUCAMed Company Limited to develop products**
- To launch more new health supplements under the brand of "LEGEND"
 - To continue engaging brand ambassadors to promote the products
 - To strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials and printed media

FUTURE PLANS AND USE OF PROCEEDS

Strategies

Implementation activities

Expanding overseas markets

- To continue engaging brand ambassadors who are well-known amongst the Taiwanese consumers to promote the Group's products in Taiwan
- To expand the Group's sales team by recruiting more promoters who will be assigned to station at the selected Taiwan Distribution Facilitator's stores to promote and sell the Group's products directly to the general public consumers in Taiwan
- To strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials and printed media, in Taiwan

Enhancing the Group's marketing and promotion activities in Hong Kong

- To continue engaging brand ambassadors to promote the Group's products in Hong Kong
- To strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials and printed media, in Hong Kong
- To engage a reputable university to conduct preliminary clinic trials on the Group's products

For the period from 1 October 2014 to 31 March 2015

Strategies

Implementation activities

Expansion of distribution network

- To set up about 1–3 new SDCs in the Distribution Facilitator's stores in Hong Kong
- To employ more promoters to station at the SDCs to promote and sell the Group's products directly to the general public consumers in Hong Kong

Collaboration with CUCAMed Company Limited to develop products

- To launch more new health supplements under the brand of "LEGEND"
- To continue engaging brand ambassadors to promote the products

FUTURE PLANS AND USE OF PROCEEDS

Strategies

Implementation activities

Expanding overseas markets

- To strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials, printed media
- To continue engaging brand ambassadors who are well-known amongst the Taiwanese consumers to promote the Group's products in Taiwan
- To expand the Group's sales team by recruiting more promoters to be assigned to station at the selected Taiwan Distribution Facilitator's stores to promote and sell the Group's products directly to the general public consumers in Taiwan
- To strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials and printed media, in Taiwan
- To explore the opportunities in other overseas market

Enhancing the Group's marketing and promotion activities in Hong Kong

- To continue engaging brand ambassadors to promote the Group's products in Hong Kong
- To strengthen the Group's branding and marketing strategies through various media and channels, such as television commercials and printed media, in Hong Kong
- To engage a reputable university to conduct preliminary clinic trials on the Group's products

For the period from 1 April 2015 onwards

Strategies

Implementation activities

Expansion of distribution network

- To set up about 2–4 new SDCs in the Distribution Facilitator's stores in Hong Kong
- To employ more promoters to station at the SDCs to promote and sell the Group's products directly to the general public consumers in Hong Kong

FUTURE PLANS AND USE OF PROCEEDS

Strategies	Implementation activities
Collaboration with CUCAMed Company Limited to develop products	<ul style="list-style-type: none">● To launch more new health supplements under the brand of “LEGEND”● To engage brand ambassadors to promote the products● To strengthen the Group’s branding and marketing strategies through various media and channels, such as television commercials and printed media
Expanding overseas markets	<ul style="list-style-type: none">● To continue engaging brand ambassadors who are well-known amongst the Taiwanese consumers to promote the Group’s products in Taiwan● To expand the Group’s sales team by recruiting more promoters to be assigned to station at the selected Taiwan Distribution Facilitator’s stores to promote and sell the Group’s products directly to the general public consumers in Taiwan● To strengthen the Group’s branding and marketing strategies through various media and channels, such as television commercials and printed media, in Taiwan● To continue exploring the opportunities in other overseas market
Enhancing the Group’s marketing and promotion activities in Hong Kong	<ul style="list-style-type: none">● To continue engaging brand ambassadors to promote the products in Hong Kong● To strengthen the Group’s branding and marketing strategies through various media and channels, such as television commercials and printed media, in Hong Kong● To engage a reputable university to conduct preliminary clinic trails on the Group’s products

FUTURE PLANS AND USE OF PROCEEDS

BASES AND ASSUMPTIONS

Potential investors should note that the attainability of the Group's business objectives depends on a number of assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, social or economic conditions in Hong Kong or in any other places in which any member of the Group carries on its business or will carry on its business;
- the Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the bases or rates of taxation in Hong Kong or in any other places in which any member of the Group operates or will operate;
- there will be no material changes in legislation or regulations whether in Hong Kong or elsewhere materially affecting the business carried on by the Group;
- there will be no significant changes in the Group's business relationship with the Group's existing strategic and business partners;
- there will be no significant changes in the Group's business relationship with its distributors;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed "Implementation plan" in this section; and
- the Group will not be materially affected by the risk factors as set out in the section headed "Risk Factors" in this prospectus.

REASONS OF THE PLACING AND THE USE OF PROCEEDS

The Directors believe that the listing of the Group's shares on GEM could enhance its profile, while the net proceeds from the Placing will strengthen the Group's financial position and allow the Group to implement and execute the business plan as set out in the paragraph headed "Implementation Plan" in this section in this prospectus. The Directors also believe that a public listing status on GEM will increase the public awareness of the Group and its brands and products as well as offer the Group access to the capital market for future business development and increase its competitiveness.

FUTURE PLANS AND USE OF PROCEEDS

Based on the Placing Price of HK\$0.92 per Share, being the mid-point of the indicative Placing Price range of HK\$0.76 to HK\$1.07 per Placing Share, the total net proceeds raised from the Placing after deduction of listing related expenses are estimated to be approximately HK\$100 million. Pursuant to HKAS 32, the listing related expenses of approximately HK\$9.1 million are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to equity transaction in relation to the issuing of new shares for listing. All other listing related expenses are recognised in the profit and loss of the respective year during the Track Record Period and the year ending 31 March 2014. For details of the listing related expenses, please refer to the paragraph headed “Administrative expenses” under “Financial Information” section in this prospectus. The net proceeds from the Placing are intended to be used as follows:

- approximately HK\$5 million, representing approximately 5.0% of the net proceeds from the Placing, will be used to increase the number of SDCs;
- approximately HK\$40 million, representing approximately 40.0% of the net proceeds from the Placing, will be used to fund the Group’s cooperation with a university;
- approximately HK\$35 million, representing approximately 35.0% of the net proceeds from the Placing, will be used in marketing activities to promote the Group’s “Royal Medic” brand in overseas markets;
- approximately HK\$11 million, representing approximately 11.0% of the net proceeds from the Placing, will be used in marketing activities to promote the Group’s brands in Hong Kong; and
- the remaining balance of approximately HK\$9 million, representing approximately 9.0% of the net proceeds from the Placing, will be used for general working capital and general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

The following table sets forth the schedule of use of proceeds for implementation of the Group's business plan:

Strategies	For the period from 1 October 2013 to 31 March 2014 <i>HK\$'000</i>	For the period from 1 April 2014 to 30 September 2014 <i>HK\$'000</i>	For the period from 1 October 2014 to 31 March 2015 <i>HK\$'000</i>	From 1 April 2015 onwards <i>HK\$'000</i>	Total <i>HK\$'000</i>
Expansion of distribution network	1,000	400	600	3,000	5,000
Collaborating with CUCAMed Company Limited to develop products and launching new marketing campaigns for co-branded products ¹	5,250	5,100	8,600	21,050	40,000
Expanding overseas markets	8,097	5,583	5,527	15,793	35,000
Enhancing the Group's marketing and promotion activities in Hong Kong	4,321	2,310	2,226	2,143	11,000
Working capital and general corporate purposes	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>1,500</u>	<u>9,000</u>
Total	<u>21,168</u>	<u>15,893</u>	<u>19,453</u>	<u>43,486</u>	<u>100,000</u>

In the event that any part of the Group's future plans does not materialise or proceed as planned, the Directors will carefully evaluate the situation and may reallocate the intended funding to other future plans and/or to new projects of the Group and/or to hold the proceeds on short-term interest bearing deposits with licenced banks and/or financial institutions in Hong Kong so long as the Directors consider it to be in the best interests of the Company and the Shareholders taken as a whole.

¹ Separately acquired product development rights are shown at historical cost. Product development rights have finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using straight-line method to allocate the cost of product development rights over the estimated useful life of each of the respective intangible asset acquired. The estimated amounts recognised as product development rights are approximately HK\$0.8 million for each of the two years ending 31 March 2015. The estimated amounts recognised as marketing expenses are approximately HK\$4.4 million and HK\$12.9 million for the two years ending 31 March 2015, respectively. The remaining balance of HK\$21.1 million will be recognised as either product development rights or marketing expenses after 1 April 2015.

FUTURE PLANS AND USE OF PROCEEDS

According to the current estimates, the Group expects that the net proceeds from the Placing in the sum of approximately HK\$100 million will be sufficient to finance the implementation of the Group's current future plans up to 31 March 2015. In the event that the net proceeds from the Placing are insufficient to finance the capital expenditure as mentioned above, the shortfall will be financed by the internal resources of the Group.

If the final Placing Price is set at the highest or lowest point of the indicative Placing Price range, the net proceeds of the Placing will increase or decrease by approximately HK\$19.7 million, respectively. In such event, the net proceeds from the Placing will be used in the same proportions as disclosed above irrespective of whether the Placing Price is determined at the highest or lowest point of the indicative Placing Price range.

SPONSOR'S INTERESTS

Save as provided for under the Underwriting Agreement, neither the Sole Sponsor nor any of its associates has or may, as a result of the Placing, have any interest in any securities of the Company or any other member of the Group (including rights to subscribe for such securities).

Neither the Sole Sponsor nor any of its associates has accrued any material benefit as a result of the successful outcome of the Placing, other than the following:

- (a) in taking up the underwriting obligations under the Underwriting Agreement;
- (b) by way of an underwriting commission to be paid to the Sole Sponsor for acting as the Underwriters to the Placing pursuant to the Underwriting Agreement;
- (c) by way of documentation and financial advisory fee to be paid to the Sole Sponsor for acting as the sponsor of the Placing;
- (d) certain associates of the Sole Sponsor whose usual and ordinary courses of business involve trading of and dealing in securities may derive commissions from the trading of and dealing in securities of the Company or provide margin financing in connection thereto or provide margin financing in connection thereto or purchase or sell securities of the Company or hold securities of the Company for investment purpose after its Listing on GEM.

None of the directors and employees of the Sole Sponsor has any directorship in the Company or any other companies comprising the Group.

UNDERWRITING

UNDERWRITERS

WAG Worldsec
Great Roc Capital Securities Limited
Luen Fat Securities Company Limited
Convoy Investment Services Limited
SBI E2 Capital Financial Services Limited
Luk Fook Securities (HK) Limited
Roctec Securities Company Limited
Wocom Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company will conditionally place the Placing Shares with institutional, professional and other investors at the Placing Price subject to the terms and conditions in the Underwriting Agreement and this prospectus. Subject to, among other conditions, the Listing Division granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Underwriting Agreement being fulfilled, the Underwriters have agreed to subscribe for or procure subscribers for the Placing Shares on the terms and conditions of the Underwriting Agreement and this prospectus.

Grounds for termination

The Lead Manager (for itself and on behalf of the Underwriters) shall have the absolute right to terminate the arrangements set out in the Underwriting Agreement by notice in writing given to the Company (for itself and on behalf of the Controlling Shareholders) by the Lead Manager (for itself and on behalf of the Underwriters) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, if there shall develop, occur, exist or come into effect:

- (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands or any relevant jurisdiction; or
- (ii) any adverse change (whether or not permanent) in local, national or international stock market conditions; or
- (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the Cayman Islands or any relevant jurisdiction; or
- (v) any change in the business or in the financial or trading position of the Group or otherwise; or

UNDERWRITING

- (vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the Cayman Islands or any relevant jurisdiction; or
- (vii) a general moratorium on commercial banking business activities in Hong Kong or any relevant jurisdiction declared by the relevant authorities; or
- (viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out,

which in the reasonably opinion of the Lead Manager (for itself and on behalf of the Underwriters):

- (a) might be materially adverse to the business, financial condition or prospects of the Group taken as a whole; or
- (b) might have a material adverse effect on the success of the Placing or might have the effect of making any part of the Underwriting Agreement incapable of implementation or performance in accordance with its terms; or
- (c) makes it inadvisable or inexpedient to proceed with the Placing.

Without prejudice to the above, if, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date, it comes to the notice of the Lead Manager:

- (i) any matter or event showing any of the warranties of the Underwriting Agreement to be untrue, inaccurate or misleading when given or repeated or any material breach of any of the warranties or any other provisions of the Underwriting Agreement by any part thereto (other than the Sole Sponsor, the Lead Manager and the Underwriters), which is considered, in the reasonably opinion of the Lead Manager (for itself and on behalf of the Underwriters), to be material in the context of the Placing; or
- (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus and the placing letter, would have constituted a material omission in the opinion of the Lead Manager (for themselves and on behalf of the Underwriters) in the context of the Placing; or
- (iii) any statement contained in this prospectus and the placing letter reasonably considered to be material by the Lead Manager which is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the reasonably opinion of the Lead Manager (for itself and on behalf of the Underwriters) to be material in the context of the Placing; or
- (iv) any event, act or omission which gives rise or is likely to give rise to any material liability of any of the Company and the Controlling Shareholders pursuant to the indemnities contained in the Underwriting Agreement.

UNDERWRITING

The Lead Manager (for itself and on behalf of the Underwriters) shall be entitled (but not obliged) by notice in writing to the Company (for itself and on behalf of the Controlling Shareholders) on or prior to such time to terminate the Underwriting Agreement.

Undertakings

(A) (a) Each of the Controlling Shareholders undertakes to and covenants with the Company, the Sole Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that save as permitted under the GEM Listing Rules, he/it shall not and shall procure that the relevant registered holders shall not:

- (i) in the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholder is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First 6-Month Period**”), sell, dispose of, nor enter into any agreement to dispose of or otherwise create any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect (“**Encumbrances**”) in respect of any of the Shares which he/it is shown in this prospectus to be the beneficial owner(s); and
- (ii) in the period of six months commencing on the date immediately following the date on which the First 6-Month Period expires, sell, dispose of, nor enter into any agreement to dispose of or otherwise create any 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 Encumbrances, he/it would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of the Company;

these restrictions shall not apply to any Shares which the Controlling Shareholders or any of his/its respective associates may acquire or become interested in following the Listing Date.

(b) Each of the Controlling Shareholders undertakes to and covenants with the Company, the Sole Sponsor, the Lead Manager, the Underwriters and the Stock Exchange that:

- (i) in the event that he/it pledges or charges any of his/its direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in paragraph (a) above, he/it must inform the Company, the Sole Sponsor and the Lead Manager immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (ii) having pledged or charged any of his/its interests in the Shares under paragraph (i) above, he/it must inform the Company and the Lead Manager immediately in the event that he/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected.

UNDERWRITING

- (B) the Company undertakes to and covenants with the Sole Sponsor, the Lead Manager and the Underwriters, and each of the Controlling Shareholders jointly and severally undertakes to and covenants with the Sole Sponsor, the Lead Manager and the Underwriters to procure that, save with the prior written consent of the Lead Manager (for itself and on behalf of the Underwriters) (such consent not to be unreasonably withheld or delayed), or save pursuant to the Placing, the Company shall not, within the period of six months from the Listing Date:
- (a) save as permitted under the GEM Listing Rules (including but not limited to Rule 17.29 of the GEM Listing Rules) and the applicable laws, allot or issue or agree to allot or issue any Shares or any other securities in the Company (including warrants or other convertible securities (and whether or not of a class already listed)); or
 - (b) grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise convert into, or exchange for any Shares or any other securities of the Company; or
 - (c) purchase any securities of the Company; or
 - (d) offer to or agree to do any of the foregoing or announce any intention to do so.

Total commission, fee and expenses

In connection with the Placing, the Underwriters will receive an underwriting commission of 3.0% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any sub-underwriting commissions.

The Company has agreed to indemnify the Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreement, and any breach by the Company of the Underwriting Agreement.

Independence of the Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules.

Underwriters' interests in the Company

The Sole Sponsor has been appointed as the compliance adviser of the Company with effect from the Listing Date until despatch of the audited consolidated financial results for the second full financial year after the Listing Date, and the Company will pay to the Sole Sponsor an agreed fee for its provision of services with the scope required under the GEM Listing Rules.

Save for their interests and obligations under the Underwriting Agreement and Placing Agreement and save as disclosed in this prospectus, none of the Sole Sponsor, the Lead Manager and the Underwriters are interested beneficially or non-beneficially in any shares in any member of the Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

STRUCTURE AND CONDITIONS OF THE PLACING

PRICE PAYABLE ON SUBSCRIPTION

The Placing Price plus 1.0% brokerage fee, a 0.003% SFC transaction levy and a 0.005% Stock Exchange trading fee make up total price payable in cash on subscription.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

- (a) the Listing Division granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as described in this prospectus;
- (b) the Price Determination Agreement having been executed by the Company and the Lead Manager (for itself and on behalf of the Underwriters) and becoming effective on the Price Determination Date; and
- (c) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Lead Manager (for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise),

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 October 2013, being the date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse, and thereafter all money received will be refunded to applicants of the Placing without interests and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company on the GEM Website and the Company's website (www.royalmedic.com) on the next business day following such lapse.

THE PLACING

129,600,000 Placing Shares are being offered pursuant to the Placing, representing in aggregate 25% of the enlarged issued share capital of the Company.

The Placing is fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreement (including but not limited to the Company and the Company and the Lead Manager (for itself and on behalf of the Underwriters) agreeing on the Placing Price)). Pursuant to the Placing, it is expected that the Underwriters, on behalf of the Company, will conditionally place 129,600,000 Placing Shares at the Placing Price to selected individual, professional and institutional investors in Hong Kong.

BASIS OF ALLOCATION

Allocation of the Placing Shares to selected individual, professional and institutional investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to purchase further Shares or hold or sell their Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead

STRUCTURE AND CONDITIONS OF THE PLACING

to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that not more than 50% of the Shares in public hands at the time of Listing will be owned by the three largest public Shareholders. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

No allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

PLACING PRICE

The Placing Price will not be more than HK\$1.07 per Placing Share (and not less than HK\$0.76 per Placing Share). Subscribers, when subscribing for the Placing Shares, shall pay the Placing Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. Assuming the Placing Price of HK\$1.07 or HK\$0.76 per Share (being the highest and lowest points of indicative Placing Price range respectively), investors shall pay HK\$4,280 and HK\$3,040 for every board lot of 4,000 Shares, respectively. The Placing Price will be fixed by an agreement expected to be entered into between the Company and the Lead Manager (for itself and on behalf of the Underwriters) on the Price Determination Date which is scheduled on or about Monday, 7 October 2013 or such later time and/or date as agreed between the Company and the Lead Manager (for itself and on behalf of the Underwriters). If the Company and the Lead Manager (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Placing Price by the Price Determination Date or such later date as may be agreed between the Company and the Lead Manager (for itself and on behalf of the Underwriters), the Placing will not become unconditional and will lapse. Prospective investors of the Placing Shares should be aware that the Placing Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Placing Price range stated in this prospectus.

If, the Lead Manager (for itself and on behalf of the Underwriters), with the consent of the Company, consider it appropriate, for instance, if based on the level of interest expressed by perspective investors, the indicative Placing Price range may be reduced below that stated in this prospectus at any time prior to the Price Determination Date. In such a case, the Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than the Price Determination Date cause to be published on the GEM Website and the Company's website (www.royalmedic.com) notice of the reduction of the indicative Placing Price range.

The indication of level of interest in the Placing and the basis of allocations of the Placing Shares will be announced on the GEM Website and the Company's website (www.royalmedic.com) at or before 8:30 a.m., Thursday, 10 October 2013.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Listing Division grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the

STRUCTURE AND CONDITIONS OF THE PLACING

Listing Date or on 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 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. All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Friday, 11 October 2013. Shares will be traded in board lots of 4,000 Shares and are fully transferable.

The following is the text of a report, prepared for the purpose of incorporating in this prospectus, received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong.

**CCIF****CCIF CPA LIMITED****陳葉馮會計師事務所有限公司**

9/F Leighton Centre
77 Leighton Road
Causeway Bay Hong Kong
香港 銅鑼灣 禮頓道77號
禮頓中心9樓

30 September 2013

The Directors
RM Group Holdings Limited
WAG Worldsec Corporate Finance Limited

Dear Sirs,

We set out below our report on the financial information of RM Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) comprising the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the two years ended 31 March 2012 and 2013, (the “**Track Record Period**”), and the combined statements of financial position of the Group as at 31 March 2012 and 2013, together with the notes thereto (the “**Financial Information**”), prepared on the basis of presentation set out in note 2(b) of Section A below, for inclusion in the prospectus of the Company dated 30 September 2013 (the “**Prospectus**”) in connection with the initial listing of the shares of the Company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The Company was incorporated and registered with limited liability as an exempted company in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 5 December 2011. Pursuant to a corporate reorganisation (“**Reorganisation**”), as more fully explained in the section headed — “Reorganisation” in Appendix V to this Prospectus, the Company became the holding company of the companies comprising the Group on 23 September 2013.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out as follows:

Name of the company	Place and date of incorporation	Equity interest attributable to the Company as at the date of this report		Issued and fully paid ordinary share capital at the date of this report	Principal activities
		Direct	Indirect		
Noble State Holdings Limited ("Noble State")	British Virgin Islands ("BVI") 16 November 2011	100%	—	US\$1	Investment holding
Apex Bloom Holdings Limited ("Apex Bloom")	BVI 16 November 2011	—	100%	US\$1	Investment holding
Apex Process Holdings Limited ("Apex Process")	BVI 11 November 2011	—	100%	US\$1	Investment holding
Apex Prospection Limited ("Apex Prospection")	BVI 3 April 2012	—	100%	US\$1	Investment holding
Fortunate Time Limited ("Fortunate Time")	BVI 25 October 2011	—	100%	US\$1	Investment holding
Apex Consultant Company Limited ("Apex Consultant")	Hong Kong 26 March 2003	—	100%	HK\$10,000	License holding
Creation Chance Limited ("Creation Chance")	Hong Kong 5 March 2004	—	100%	HK\$1	Sale of health and beauty supplements and products and provision of general administrative services
CM Legend Company Limited ("CM Legend")	Hong Kong 17 September 2013	—	100%	HK\$10,000	Trading of products under the proprietary brand of "CM Legend"
Eastern Bright (Asia) Limited ("Eastern Bright")	Hong Kong 3 March 2010	—	100%	HK\$1	Providing management services to other Group companies
Herballand Bio-Chemical (New Zealand) Inc. ("Herballand Bio-Chemical")	BVI 19 October 2004	—	100%	US\$1	Inactive
Health Proof International Company Limited ("Health Proof International")	Hong Kong 7 June 2011	—	100%	HK\$1	License holding
Hong Kong Ever Spring Medicine Factory Limited ("HK Ever Spring")	Hong Kong 12 May 2004	—	100%	HK\$1	Manufacturing and sale of health and beauty supplements and products
Kiwi Lab International Company Limited ("Kiwi Lab")	Hong Kong 1 April 2010	—	100%	HK\$1	License holding

Name of the company	Place and date of incorporation	Equity interest attributable to the Company as at the date of this report		Issued and fully paid ordinary share capital at the date of this report	Principal activities
		Direct	Indirect		
M2C Natural Health Limited ("M2C")	Hong Kong 31 March 2006	—	100%	HK\$1	Trading of health products
Medalist Limited ("Medalist")	BVI 18 October 2002	—	100%	US\$1	Trademark holding
Power Regal International Limited ("Power Regal")	Hong Kong 6 July 2011	—	100%	HK\$1	Property investment
Rich Sunny Investment Limited ("Rich Sunny")	Hong Kong 3 May 2006	—	100%	HK\$1	Property investment and investment holding
Royal Medic Chinese Medicine Clinic Limited ("Royal Medic CMC")	Hong Kong 2 March 2006	—	100%	HK\$3	Provision of Chinese medical consultation services and trading of health products
Royal Medic (Holdings) Limited ("Royal Medic Holdings")	Hong Kong 11 June 2004	—	100%	HK\$100	License holding
Sunny Regent (Asia) Limited ("Sunny Regent")	Hong Kong 22 April 2010	—	100%	HK\$1	Providing management services to other Group companies
Super Pioneer Holdings Limited ("Super Pioneer")	Hong Kong 26 April 2011	—	100%	HK\$1	Providing management services to other Group companies
Wisdom Come Medical Group Limited ("Wisdom Come Medical")	Hong Kong 20 August 2004	—	100%	HK\$100	Investment holding
Wisdom Health Products Company Limited ("Wisdom Health Products")	Hong Kong 5 January 2004	—	100%	HK\$2	Trading of health and beauty supplements and products and investment holding
Wisdom Come Promotion Limited ("Wisdom Come Promotion")	Hong Kong 13 August 2012	—	100%	HK\$1	Promotion activities
Wisdom Healthcare Co., Limited ("Wisdom Healthcare")	Taiwan 19 March 2013	—	100%	NT\$10,000,000	Trading of health and beauty supplements
Venture Tycoon Limited ("Venture Tycoon")	Hong Kong 20 December 2011	—	100%	HK\$1	Inactive
Floral Princess Assets Limited ("Floral Princess")	BVI 6 September 2012	—	100%	US\$1	Investment holding
Honten Limited ("Honten")	Hong Kong 8 October 2012	—	100%	HK\$1	Investment holding

During the Track Record Period, all the companies comprising the Group have adopted 31 March as their financial year end date.

No audited financial statements have been prepared for the Company which was incorporated in the Cayman Islands since its date of incorporation as there is no statutory requirement.

No statutory audited financial statements have been prepared for Noble State, Apex Bloom, Apex Process, Apex Prospection, Fortunate Time, Floral Princess, Herballand Bio-Chemical, Medalist, Xaxon Cosmeceutical Inc. and Wealth International (Holdings) Limited which were incorporated in BVI as they were incorporated in the jurisdiction where there is no statutory audit requirement.

No audited financial statements have been prepared for CM Legend as it has not reached its first financial year end in accordance with the relevant rules and regulations in Hong Kong since its incorporation date.

No audited financial statements have been prepared for Wisdom Healthcare which was incorporated in Taiwan as it has not reached its first financial year end in accordance with the relevant rules and regulations in Taiwan since its incorporation date.

The statutory financial statements of the following subsidiaries comprising the Group for the Track Record Period, or since their respective dates of incorporation, where this is a shorter period, were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and were audited by the following certified public accountants registered in Hong Kong.

Name of subsidiary	Financial year	Name of statutory auditors
Apex Consultant	Year ended 31 March 2012	Chan Wai Fan Certified Public Accountant
	Year ended 31 March 2013	CCIF CPA Limited
A.S. Wat Hong Kong Limited	Year ended 31 March 2012	Chan Wai Fan Certified Public Accountant
	Year ended 31 March 2013	CCIF CPA Limited
A.S. Wat International Limited	Year ended 31 March 2012	Chan Wai Fan Certified Public Accountant
	Year ended 31 March 2013	CCIF CPA Limited
Creation Chance	For each of the two years ended 31 March 2013	CCIF CPA Limited
Eastern Bright	Year ended 31 March 2012	Chan Wai Fan Certified Public Accountant
	Year ended 31 March 2013	CCIF CPA Limited

Name of subsidiary	Financial year	Name of statutory auditors
Health Proof International	Period from 7 June 2011 (date of incorporation) to 31 March 2012 Year ended 31 March 2013	Chan Wai Fan Certified Public Accountant CCIF CPA Limited
Honten	Period from 8 October 2012 (date of incorporation) to 31 March 2013	CCIF CPA Limited
HK Ever Spring	For each of the two years ended 31 March 2013	CCIF CPA Limited
Kiwi Lab	Year ended 31 March 2012 Year ended 31 March 2013	Chan Wai Fan Certified Public Accountant CCIF CPA Limited
M2C	For each of the two years ended 31 March 2013	CCIF CPA Limited
Men 100 Limited	Year ended 31 March 2012 Year ended 31 March 2013	Chan Wai Fan Certified Public Accountant CCIF CPA Limited
Power Regal	Period from 6 July 2011 (date of incorporation) to 31 March 2012 Year ended 31 March 2013	Chan Wai Fan Certified Public Accountant CCIF CPA Limited
Rich Sunny	Year ended 31 March 2012 Year ended 31 March 2013	Chan Wai Fan Certified Public Accountant CCIF CPA Limited
Royal Medic CMC	For each of the two years ended 31 March 2013	CCIF CPA Limited
Royal Medic Holdings	Year ended 31 March 2012 Year ended 31 March 2013	Chan Wai Fan Certified Public Accountant CCIF CPA Limited
Royal Medic Management Limited	Year ended 31 March 2012 Year ended 31 March 2013	Chan Wai Fan Certified Public Accountant CCIF CPA Limited
Sky China Enterprises Limited	Year ended 31 March 2012 Year ended 31 March 2013	Chan Wai Fan Certified Public Accountant CCIF CPA Limited

Name of subsidiary	Financial year	Name of statutory auditors
Sunny Regent	Year ended 31 March 2012	Chan Wai Fan Certified Public Accountant
	Year ended 31 March 2013	CCIF CPA Limited
Super Pioneer	Period from 26 April 2011 (date of incorporation) to 31 March 2012	Chan Wai Fan Certified Public Accountant
	Year ended 31 March 2013	CCIF CPA Limited
Venture Tycoon	Period from 20 December 2011 (date of incorporation) to 31 March 2013	CCIF CPA Limited
Wisdom Come Marketing Strategy Limited	Year ended 31 March 2012	Chan Wai Fan Certified Public Accountants
	Year ended 31 March 2013	CCIF CPA Limited
Wisdom Come Medical	For each of the two years ended 31 March 2013	CCIF CPA Limited
Wise Medic Company Limited	Period from 19 April 2012 (date of incorporation) to 31 March 2013	CCIF CPA Limited
Wisdom Health Products	For each of the two years ended 31 March 2013	CCIF CPA Limited
Wisdom Come Promotion	Period from 13 August 2012 (date of incorporation) to 31 March 2013	CCIF CPA Limited

For the purpose of this report, the directors of the Company (the “**Directors**”) have prepared the combined financial statements of the Group (the “**Combined Financial Statements**”) in accordance with HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the HKICPA. The Combined Financial Statements for each of the years ended 31 March 2012 and 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information as set out in Section A to F below has been prepared from the Combined Financial Statements with no adjustments made thereon.

Directors' responsibilities

The Directors are responsible for the preparation of the Combined Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Combined Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 "*Prospectuses and the Reporting Accountant*" issued by the HKICPA.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2(b) of Section A below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 March 2012 and 2013 and of the combined results and cash flows of the Group for each of the Track Record Period.

A. COMBINED FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

	<i>Note</i>	Year ended 31 March	
		2012	2013
		<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	5	158,793	163,767
Cost of sales		<u>(32,449)</u>	<u>(34,757)</u>
GROSS PROFIT		126,344	129,010
Other revenue and other net income	6	31	1,337
Selling and distribution expenses		(30,768)	(38,018)
Administrative expenses		<u>(42,882)</u>	<u>(45,735)</u>
PROFIT FROM OPERATIONS		52,725	46,594
Finance costs	7(c)	<u>(131)</u>	<u>(110)</u>
PROFIT BEFORE TAXATION	7	52,594	46,484
Taxation	10(a)	<u>(9,562)</u>	<u>(7,220)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>43,032</u>	<u>39,264</u>
Earnings per share			
Earnings per share for profit attributable to equity holders	12	<u>N/A</u>	<u>N/A</u>

Combined Statements of Financial Position

	Note	As at 31 March	
		2012 HK\$'000	2013 HK\$'000
Non-current assets			
Property, plant and equipment	14	16,303	16,868
Current assets			
Inventories	15	11,109	12,765
Trade and other receivables	16	27,304	32,572
Pledged bank deposit	17	—	5,000
Cash and cash equivalents	18	34,812	15,708
Tax recoverable	10(b)	—	16
		73,225	66,061
Current liabilities			
Trade and other payables	19	21,694	13,202
Obligations under finance lease	20	90	47
Secured bank loans	21	4,020	3,491
Amounts due to related parties	22	2,418	26,529
Tax payables	10(b)	21,076	—
Provisions	23	860	1,038
		50,158	44,307
Net current assets		23,067	21,754
Total assets less current liabilities		39,370	38,622
Non-current liabilities			
Obligations under finance lease	20	47	—
Deferred tax liabilities	24	36	71
		83	71
Net assets		39,287	38,551
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	—	—
Reserves		39,287	38,551
TOTAL EQUITY		39,287	38,551

Combined Statements of Changes in Equity

	Share capital <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2011	—	27,255	27,255
Profit and total comprehensive income for the year	—	43,032	43,032
Dividends (<i>note 11</i>)	—	(31,000)	(31,000)
At 31 March 2012 and 1 April 2012	—	39,287	39,287
Profit and total comprehensive income for the year	—	39,264	39,264
Dividends (<i>note 11</i>)	—	(40,000)	(40,000)
At 31 March 2013	—	38,551	38,551

Combined Statements of Cash Flows

	Note	Year ended 31 March	
		2012 HK\$'000	2013 HK\$'000
OPERATING ACTIVITIES			
Profit before taxation		52,594	46,484
Adjustments for:			
Finance costs	7(c)	131	110
Write down of inventories	15(b)	1,962	1,147
Reversal of write-down of inventories	15(b)	(453)	(508)
Depreciation on property, plant and equipment	14	884	1,467
Bank interest income	6	(12)	—
Net gain on disposal of property, plant and equipment	6	—	(1,246)
		55,106	47,454
Changes in working capital			
Increase in inventories		(6,969)	(2,295)
Increase in trade and other receivables		(6,439)	(5,268)
Decrease in amount due from a related party		278	—
Increase/(decrease) in trade and other payables		8,353	(8,492)
Decrease in amounts due to related parties		(2,596)	(2,389)
(Decrease)/increase in provisions		(112)	178
		47,621	29,188
CASH GENERATED FROM OPERATIONS			
Hong Kong profits tax paid	10(b)	(133)	(28,277)
		47,488	911
NET CASH GENERATED FROM OPERATING ACTIVITIES			
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	14	(5,991)	(2,886)
Proceeds from sale of property, plant and equipment		—	2,100
Bank interest received	6	12	—
Increase in pledged bank deposit		—	(5,000)
		(5,979)	(5,786)
NET CASH USED IN INVESTING ACTIVITIES			

	<i>Note</i>	Year ended 31 March	
		2012	2013
		<i>HK\$'000</i>	<i>HK\$'000</i>
FINANCING ACTIVITIES			
Repayment of secured bank loans		(515)	(529)
Interests paid		(119)	(104)
Decrease in amounts due to related parties	30	(29,921)	(13,500)
Capital element of finance lease payments		(84)	(90)
Interest element of finance lease payments		(12)	(6)
NET CASH USED IN FINANCING ACTIVITIES		<u>(30,651)</u>	<u>(14,229)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		10,858	(19,104)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>23,954</u>	<u>34,812</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	18	<u><u>34,812</u></u>	<u><u>15,708</u></u>

1. REORGANISATION AND PRINCIPAL ACTIVITY

RM Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the sale, marketing and distribution of health and beauty supplements and products in Hong Kong. The Group’s products are sold and distributed under its proprietary brand names of the companies within the Group and the private label brands specifically developed for and owned by a renowned chain of health and beauty products in Hong Kong and Macau (the “**Distribution Facilitator**”).

The Company was incorporated in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 5 December 2011. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. As at the date of its incorporation, its authorised share capital was HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.1 each, of which one share was allotted and issued nil paid to the subscriber. On 5 December 2011, the one share held by the subscriber was transferred to Able Island Group Limited (“**Able Island**”). The Company has established a place of business in Hong Kong at 21/F., Man Shing Industrial Building, 307-311 Castle Peak Road, Kwai Chung, Hong Kong and has been registered as a non-Hong Kong company under Part XI of Hong Kong Companies Ordinance on 5 April 2012.

As at 31 March 2013, Wisdom Come Medical is the immediate holding company of the following wholly owned subsidiaries, including Apex Consultant, Apex Bloom, Apex Process, Apex Prospection, Creation Chance, Fortunate Time, Floral Princess, Honten, Herballand, HK Ever Spring, M2C, Men 100 Limited (“**Men 100**”), Royal Medic CMC, Royal Medic Holdings, Royal Medic Management Limited (“**Royal Medic Management**”), Sky China Enterprises Limited (“**Sky China**”), Wise Medic Company Limited (“**Wise Medic**”), Wealth International (Holdings) Limited (“**Wealth International**”), Wisdom Health Products, Wisdom Come Promotion, and Xaxon Cosmeceutical Inc. (“**Xaxon**”). Able Island, the ultimate holding company of the Group, owns 100% of the equity interest in Wisdom Come Medical, while Wisdom Health Products is the immediate holding company of Rich Sunny, Rich Sunny is the immediate holding company of Power Regal and Wealth International is the immediate holding company of A.S. Wat Hong Kong Limited (“**A.S. Wat Hong Kong**”), A.S. Wat International Limited (“**A.S. Wat International**”) and Wisdom Come Marketing Strategy Limited (“**Wisdom Come Marketing**”).

Pursuant to the written resolutions of the directors on 10 September 2013, Wisdom Come Medical disposed of the entire issued share capital in Xaxon to Chan Yan Tak, director of the Company, at a cash consideration of HK\$1 and disposed of the entire issued share capital in Royal Medic Management, Sky China, Wise Medic, Men 100 and Wealth International and its subsidiaries (altogether “**Wealth International Group**”) to Xaxon at a cash consideration of HK\$1 each.

On 7 June 2011, Health Proof International was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. On the date of incorporation, one share was issued to Able Island, Health Proof International was owned as to 100% by Able Island. The operating result of Health Proof International was accounted for by the Group by applying the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA (“**AG5**”) from the date of incorporation on 7 June 2011. The principal activity of Health Proof International is license holding. On 16 November 2011, Apex Bloom was incorporated in BVI and is authorised to issue a maximum of 50,000 shares with a par value of US\$1 each. On 5 December 2011, one share of Apex Bloom was allotted and issued fully paid up for cash at par to Wisdom Come Medical. Pursuant to the sale and purchase agreement dated 10 September 2013, Apex Bloom acquired the entire issued share capital of Health Proof International from Able Island, the existing shareholder of Health Proof International. Thereafter, Apex Bloom and Wisdom Come Medical became the immediate and intermediate holding companies of Health Proof International respectively.

On 1 April 2010, Kiwi Lab was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. On 17 June 2010, the subscriber transferred its one share in Kiwi Lab to Able Island and from then onwards, Kiwi Lab was owned as to 100% by Able Island. The operating result of Kiwi Lab was accounted for by the Group by applying the AG5 from the first day of the Track Record Period on 1 April 2011. On date of incorporation, Kiwi Lab was known as Star Gather Limited. Its name was changed to “Kiwi Lab International Company Limited” on 23 June 2010. The principal activity of Kiwi Lab is license holding. On 11 November 2011, Apex Process was incorporated in BVI and is authorised to issue a maximum of 50,000 shares with a par value of US\$1 each. On 5 December 2011, one share of Apex Process was allotted and issued fully paid up for cash at par to Wisdom Come Medical. Pursuant to the sale and purchase agreement dated 10 September 2013, Apex Process acquired the entire issued share capital of Kiwi Lab from Able Island, the existing shareholder of Kiwi Lab. Thereafter, Apex Process and Wisdom Come Medical became the immediate and intermediate holding companies of Kiwi Lab respectively.

On 18 October 2002, Medalist was incorporated in BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each and one share was issued to Wisdom Come Consultant Co., Ltd on 22 November 2002. On 25 September 2003, Able Island acquired the one share of Medalist from Wisdom Come Consultant Co., Ltd, Medalist was then owned as to 100% by Able Island. Medalist was consolidated into the Group by applying the AG5 from the first day of the Track Record Period on 1 April 2011. Pursuant to the sales and purchase agreement dated 10 September 2013, Wisdom Come Medical acquired the entire issued share capital of Medalist from Able Island, the existing shareholder of Medalist. Thereafter, Wisdom Come Medical became the immediate holding company of Medalist. The principal activity of Medalist is trademark holding.

On 3 March 2010, Eastern Bright was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into HK\$1 each. Upon incorporation, one share was allotted and issued to the subscriber, Mr. Wong Ting Wah (“**Mr. Wong**”), at par. Mr. Wong held this share in trust for Wisdom Come Medical pursuant to a declaration of trust dated 2 September 2010. On 26 April 2012, the declaration of trust was released and the entire issued share capital was transferred to Wisdom Come Medical, the beneficial owner of Eastern Bright. Eastern Bright is engaged in license holding. The operating result of Eastern Bright has been accounted for by the Group from the date of incorporation.

On 22 April 2010, Sunny Regent was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into HK\$1 each. Upon incorporation, one share was allotted and issued to the subscriber, Ms. Fong Wai Man, Candy (“**Ms. Fong**”), at par. Ms. Fong held this share in trust for Wisdom Come Medical pursuant to a declaration of trust dated 2 September 2010. On 26 April 2012, the declaration of trust was released and the entire issued share capital was transferred to Wisdom Come Medical, the beneficial owner of Sunny Regent. Sunny Regent is engaged in license holding. The operating result of Sunny Regent has been accounted for by the Group from the date of incorporation.

On 26 April 2011, Super Pioneer was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into HK\$1 each. Upon incorporation, one share was allotted and issued to the subscriber, Mr. Wong Ching Tat, Lesile (“**Mr. Wong**”), at par. Mr. Wong held this share in trust for Wisdom Come Medical pursuant to a declaration of trust dated 27 June 2011. On 26 April 2012, the declaration of trust was released and the entire issued share capital was transferred to Wisdom Come Medical, the beneficial owner of Super Pioneer. Super Pioneer is engaged in license holding. The operating result of Super Pioneer has been accounted for by the Group from the date of incorporation.

On 25 October 2011, Fortunate Time was incorporated in BVI and is authorised to issue a maximum of 50,000 shares with a par value of US\$1 each. On 5 December 2011, one share of Fortunate Time was allotted and issued fully paid up for cash at par to Wisdom Come Medical. Since the date of incorporation, Fortunate Time was wholly owned by Wisdom Come Medical. Pursuant to the sale and purchase agreement dated 10 September 2013, Fortunate Time acquired the entire issued share capital of Eastern Bright, Sunny Regent and Super Pioneer from Wisdom Come Medical. The acquisitions were completed on 11 September 2013. Thereafter, Fortunate Time and Wisdom Come Medical became the immediate and intermediate holding companies of Eastern Bright, Sunny Regent and Super Pioneer respectively.

On 16 November 2011, Noble State was incorporated in the BVI and is authorised to issue a maximum of 50,000 shares with a par value of US\$1 each. On 5 December 2011, one share was allotted and issued fully paid up for cash at par to Able Island.

Pursuant to a sale and purchase agreement dated 12 September 2013 entered into between Noble State as purchaser and Able Island as vendor, Noble State acquired from Able Island 101 shares of Wisdom Come Medical, representing the entire issued share capital of Wisdom Come Medical, at a consideration of HK\$38,551,000 on 12 September 2013, which was fully satisfied by Noble State allotting and issuing ten shares of US\$1.00 each credited as fully paid up in the capital of Noble State to Able Island.

Pursuant to a sale and purchase agreement dated 23 September 2013 entered into between the Company as purchaser and Able Island as vendor, the Company acquired from Able Island 11 shares of Noble State, representing the entire issued share capital of Noble State, at a consideration of HK\$38,551,000 on 23 September 2013, which was fully satisfied by (A) the Company allotting and issuing 999,990 Shares credited as fully paid up to Able Island; and (B) the Company crediting as fully paid at par the ten nil paid Shares held by Able Island.

Pursuant to the reorganisation of the Group (the “**Reorganisation**”), the authorised share capital of the Company was changed from HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each to 38,000,000 shares of HK\$0.01 each.

The authorised ordinary share capital of the Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of an additional 962,000,000 shares of HK\$0.01 each.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the years ended 31 March 2012 and 2013 and the combined statements of financial position as at 31 March 2012 and 2013 have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout those periods. The Financial Information has been prepared using the principles of merger accounting in accordance with AG5 as if the group structure under the Reorganisation had been in existence throughout the Track Record Period or since their respective dates of incorporation of the entities now comprising the Group, whichever is the shorter period.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Financial Information covering the Track Record Period, the Group has adopted all these new and revised HKFRSs, except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 April 2012. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 April 2012 are set out in Note 2(b).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation of the Financial Information

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the years ended 31 March 2012 and 2013 and the combined statements of financial position as at 31 March 2012 and 2013 have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout those periods. The Financial Information has been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” as if the group structure under the Group Reorganisation had been in existence throughout the Track Record Period or since their respective dates of incorporation of the entities now comprising the Group, whichever is the shorter period.

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

Items included in the Financial Information of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Financial Information are presented in Hong Kong dollars (“HKD”), rounded to the nearest thousand except for per share data. Hong Kong dollar is the Company’s functional and the Group’s presentation currency.

Application of Hong Kong financial reporting standards

For the purpose of preparing and presenting the Financial Information, the Group has applied all HKFRSs which are effective for the Group’s financial year beginning on 1 April 2011 consistently throughout the Track Record Period.

The Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective as at the date of this report.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle ¹
Amendments to HKFRS 1	Government loans ¹
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ²
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-financial Assets ²
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting ²
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹
HK(IFRIC)-Int 21	Levies ²

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 January 2014.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 July 2012.

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the combined financial statements.

(c) Business combinations under common control

The Financial Information incorporates the financial statements items 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 party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of comprehensive income include 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 common control combination.

Intra-group transactions, balances and unrealised profits on transactions between group companies are eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of an impairment of the asset transferred.

(d) Subsidiaries

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

(e) Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 2(h)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.
- buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- other property, plant and equipment are depreciated on a straight-line method over their estimated useful lives as follows:

Leasehold improvements	20% per annum
Plant and machinery	30%–33% per annum
Furniture, fixtures and equipment	20%–33% per annum
Motor vehicles	20% per annum

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(f) Intangible assets (other than goodwill)

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

(g) **Leased assets**

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

(i) *Classification of assets leased to the Group*

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

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) *Assets acquired under finance leases*

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

(iii) *Operating lease charges*

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

(iv) *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the combined statements of financial position and is amortised over the lease term on a straight-line basis.

(h) Impairment of assets*(i) Impairment of trade and other receivables*

Trade and other receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

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

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(h)(ii).
- For trade receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the higher of its fair value less costs to sell and its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(i) Inventories

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

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

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

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

(j) Trade and other receivables

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

(k) Interest-bearing borrowings

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

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

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

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

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

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

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Other provision and contingent liabilities

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

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

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recognised after deduction of any trade discounts and net of sales return.

(ii) Provision of Chinese medical consultation services

Income from the provision of Chinese medical consultation services is recognised when services are provided.

(iii) Interest income

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

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the profit or loss in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

- (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Board of Directors for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(v) Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Financial Information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT AND CAPITAL DISCLOSURES

(a) Financial risk managements and policies

The Group's major financial instruments include cash and cash equivalents, pledged bank deposit, secured bank loans, trade and other receivables, trade and other payables, amounts due to related parties and obligations under finance lease. Details of the financial instruments are disclosed in respective notes. The risk associated with these financial instruments include credit risk, liquidity risk, currency risk and interest rate risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of merely dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

In respect of trade and other receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of the financial position and condition of the customers and debtors of the Group are performed on all customers and debtors requiring credit over a certain amount. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

In respect of trade and other receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group offers credit terms of up to 120 days. The default risk of the industry in which customers operate also has an influence on credit risk. As at 31 March 2012 and 31 March 2013, the Group has a certain concentrations of credit risk of 81% and 72% of total trade and other receivables due from the Group's largest customer respectively and 81% and 74% of the total trade and other receivables due from the Group's five largest customers respectively.

The credit risk on balances of cash and cash equivalents and pledged bank deposit is low as these balances are placed with reputable financial institutions.

The maximum exposure to credit risk in respect of the financial guarantee is disclosed in note 29.

Further quantitative disclosures in respect of the Group's exposure of credit risk arising from trade and other receivables are set out in note 16.

(ii) *Liquidity risk*

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group relies on bank borrowings as a significant source of liquidity. During the Track Record Period, the Group has available unutilised banking facilities of approximately HK\$7,815,000 at 31 March 2012 and HK\$15,094,000 at 31 March 2013.

The following liquidity table set out the Group's remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, i.e. if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

At 31 March 2012

	On demand HK\$'000	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
Trade and other payables	—	21,694	—	—	—	21,694	21,694
Obligations under finance lease	—	96	48	—	—	144	137
Secured bank loans	4,020	—	—	—	—	4,020	4,020
Amounts due to related parties	2,418	—	—	—	—	2,418	2,418
	<u>6,438</u>	<u>21,790</u>	<u>48</u>	<u>—</u>	<u>—</u>	<u>28,276</u>	<u>28,269</u>
Financial guarantees issued: Maximum amount guaranteed (note 29)	<u>14,233</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,233</u>	<u>—</u>

At 31 March 2013

	On demand HK\$'000	Within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Carrying amount HK\$'000
Trade and other payables	—	13,202	—	—	—	13,202	13,202
Obligations under finance lease	—	48	—	—	—	48	47
Secured bank loans	3,491	—	—	—	—	3,491	3,491
Amounts due to related parties	26,529	—	—	—	—	26,529	26,529
	<u>30,020</u>	<u>13,250</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>43,270</u>	<u>43,269</u>
Financial guarantees issued: Maximum amount guaranteed (note 29)	<u>14,233</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,233</u>	<u>—</u>

The table that follows summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts are greater than the amounts disclosed in the “on demand” time band in the above maturity analysis. Taking into account of the Group’s financial position, the directors of the Company do not consider it probable that the bank will exercise its discretion to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Maturity Analysis — Term Loans subject to a repayment on demand clause based on scheduled repayments

	On demand <i>HK\$'000</i>	Within 1 year <i>HK\$'000</i>	More than 1 year but less than 2 years <i>HK\$'000</i>	More than 2 years but less than 5 years <i>HK\$'000</i>	More than 5 years <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>
31 March 2012	—	633	633	1,900	1,272	4,438
31 March 2013	—	633	633	1,819	720	3,805

(iii) *Interest rate risk*

The Group manages its interest rate exposure based on interest rate level and outlook as well as the potential impact on the Group's financial position arising from volatility. The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging the interest rate risk exposure should the need arises.

The Group is exposed to interest rate risk through the impact of rates changes on interest-bearing borrowings, predominantly with variable interest rates.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 21 for details of these borrowings).

(i) *Interest rate profile*

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	31 March 2012		31 March 2013	
	Weighted average interest rate %	<i>HK\$'000</i>	Weighted average interest rate %	<i>HK\$'000</i>
Variable rate borrowings:				
Secured bank loans	2.15%	4,020	1.89%	3,491
Total borrowings		4,020		3,491

(ii) *Sensitivity analysis*

At 31 March 2012 and 31 March 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank borrowings, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by HK\$34,000 and HK\$29,000 respectively. Other components of equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for variable rate interest bearing financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates. The analysis is performed on the same basis for the Track Record Period.

(iv) Currency risk*Exposure to currency risk*

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group is exposed to currency risk primarily through purchases which give rise to payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily United States dollar.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognized assets and liabilities that are denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date.

	Exposure to foreign currencies (expressed in Hong Kong dollars) As at 31 March	
	2012	2013
	<i>US\$ '000</i>	<i>US\$ '000</i>
Trade and other payables	(1,149)	(459)
Net exposure arising from recognized assets and liabilities	<u>(1,149)</u>	<u>(459)</u>

Because the pegged rate between the Hong Kong dollar and the United States dollar would not be materially affected by any changes in movement in the value of the United States dollar against other currencies, the Group's exposure to currency risk is not significant.

(b) Capital management

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the owners through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

The Group monitors capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt/(cash) is calculated as total debts (including obligations under finance lease and secured bank loans (as detailed in note 20 and 21 respectively)) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the combined statement of financial position plus net debt, if any.

The net gearing ratio of the Group as at 31 March 2012 and 31 March 2013 are as follows:

	31 March 2012	31 March 2013
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Debts	4,157	3,538
Less: Cash and cash equivalents (<i>note 18</i>)	<u>(34,812)</u>	<u>(15,708)</u>
Net cash	<u>(30,655)</u>	<u>(12,170)</u>
Total capital	<u>39,287</u>	<u>38,551</u>
Net gearing ratio	<u>N/A</u>	<u>N/A</u>

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

(c) **Fair value**

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 March 2012 and 31 March 2013.

4. CRITICAL ACCOUNTING ESTIMATES

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) *Useful lives of property, plant and equipment*

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

(ii) *Impairment of property, plant and equipment*

The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. In assessing its 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, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying amounts of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(iii) *Impairment of receivables*

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the trade and other receivables, where applicable, at the end of each reporting period. The estimates are based on the ageing of the trade and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

(iv) *Write down of inventories*

The management of the Group reviews its inventories at the end of each reporting period and write-down inventories to net realisable value. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and make allowance for obsolete items.

(v) *Current taxation and deferred taxation*

Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred taxation relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation in the periods in which such estimate is changed.

(vi) *Provisions for goods return*

The Group makes provisions for goods return based on a percentage of sales and information on actual returns of goods from consumers to estimate return percentages. The provision is calculated based on these factors and is adjusted for any fluctuations in the returns estimated by management as of the end of each reporting period. The estimate has been made on the basis of historical trends of return and may vary as a result of new product components, altered manufacturing process, other events affecting product quality or change in consumer behavior.

In evaluating the adequacy of the provision, the Group prepares an analysis to determine the reasons for unutilised provisions. If the analysis determines that some carry forward provision amounts were no longer appropriate based on actual claims experience, proper adjustments will be made to release the over-accrued portion.

5. TURNOVER

The Group is principally engaged in the sale, marketing and distribution of health and beauty supplements and products mainly in Hong Kong. The products are sold and distributed under the proprietary brand names of the companies within the Group and the private label brands specifically designated for the Distribution Facilitator.

Turnover represents the invoiced value of sales of health and beauty supplements and products, less sales returns and discounts for the year. An analysis of turnover is as follows:

	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
Health supplements	109,469	120,082
Beauty supplements and products	48,784	42,840
Others	540	845
	<u>158,793</u>	<u>163,767</u>
Total turnover	<u>158,793</u>	<u>163,767</u>

6. OTHER REVENUE AND OTHER NET INCOME

	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
Other revenue		
Bank interest income	12	—
	<u>12</u>	<u>—</u>
Total interest income on financial assets not at fair value through profit or loss	12	—
Sundry income	19	70
	<u>31</u>	<u>70</u>
Other net income		
Net gain on disposal of property, plant and equipment	—	1,246
Exchange gain	—	21
	<u>31</u>	<u>1,267</u>
	<u>31</u>	<u>1,337</u>

7. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting) the following:

	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
(a) Staff costs:		
Salaries, allowances, and other benefits (including directors' remuneration (<i>Note 8</i>))	34,283	35,536
Mandatory provident fund contributions	<u>970</u>	<u>1,297</u>
	<u>35,253</u>	<u>36,833</u>
(b) Other items:		
Auditors' remuneration	529	400
Cost of inventories (<i>note i</i>)	32,449	34,757
Depreciation on property, plant and equipment	884	1,467
Provision for goods return	2,620	1,305
Exchange loss/(gain), net	31	(21)
Operating lease charges	53	106
Net gain on disposal of property, plant and equipment	—	(1,246)
Research and development cost	<u>768</u>	<u>2,074</u>
(c) Finance costs:		
Finance charge on obligations under a finance lease	12	6
Interest on bank advances not wholly repayable within five years	<u>119</u>	<u>104</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>131</u>	<u>110</u>

The analysis shows the finance costs of bank loans, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayment dates set out in the loan agreements. The interest on bank loans which contain a repayment on demand clause amounted to HK\$119,000 for the year ended 31 March 2012 and HK\$104,000 for the year ended 31 March 2013.

Note:

- (i) Cost of inventories includes March 2012: HK\$6,098,000 and March 2013: HK\$4,685,000 relating to staff cost, depreciation and provision for goods return, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

8. DIRECTORS' REMUNERATION

The aggregate amounts of emoluments paid and payable to the directors of the Company by the Group during the Track Record Period disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are set out below:

	Year ended 31 March 2012				Total HK\$'000
	Fees HK\$'000	Discretionary bonuses HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	
<i>Chairman, chief executive officer and executive director</i>					
Chan Yan Tak (Note i)	—	5,000	531	6	5,537
<i>Executive directors</i>					
Wong Mau Tai (Note ii)	—	—	600	12	612
Foo Chi Ming (Note iii)	—	—	—	—	—
<i>Non-executive director</i>					
Tsang Pui Man (Note iv)	—	—	—	—	—
<i>Independent non-executive directors</i>					
Wei Jianan (Note v)	—	—	—	—	—
Ng Ka Ming (Note v)	—	—	—	—	—
Cheng Kwok Kin, Paul (Note v)	—	—	—	—	—
	<u>—</u>	<u>5,000</u>	<u>1,131</u>	<u>18</u>	<u>6,149</u>

	Year ended 31 March 2013				Total HK\$'000
	Fees HK\$'000	Discretionary bonuses HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	
<i>Chairman, chief executive officer and executive director</i>					
Chan Yan Tak (Note i)	—	—	—	—	—
<i>Executive directors</i>					
Wong Mau Tai (Note ii)	—	60	720	15	795
Foo Chi Ming (Note iii)	—	—	—	—	—
<i>Non-executive director</i>					
Tsang Pui Man (Note iv)	—	—	—	—	—
<i>Independent non-executive directors</i>					
Wei Jianan (Note v)	—	—	—	—	—
Ng Ka Ming (Note v)	—	—	—	—	—
Cheng Kwok Kin, Paul (Note v)	—	—	—	—	—
	<u>—</u>	<u>60</u>	<u>720</u>	<u>15</u>	<u>795</u>

Notes:

- (i) Mr. Chan Yan Tak was appointed as chairman, chief executive officer and executive director of the Company on 5 December 2011.
- (ii) Mr. Wong Mau Tai was appointed as executive director of the Company on 5 December 2011.
- (iii) Mr. Foo Chi Ming was appointed as executive director of the Company on 16 August 2012.
- (iv) Ms. Tsang Pui Man was appointed as non-executive director of the Company on 5 December 2011.
- (v) Mr. Wei Jianan, Professor Ng Ka Ming and Mr. Cheng Kwok Kin, Paul were appointed as independent non-executive directors of the Company on 24 September 2013.

During the Track Record Period, no director of the Company has waived any emoluments and no emoluments were paid or payable by the Group to any of the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments paid to the five highest paid individuals (including directors and other employees) are as follows:

	Year ended 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	2,108	4,475
Bonuses	5,095	100
Retirement scheme contributions	51	70
	<u>7,254</u>	<u>4,645</u>
Number of directors	2	1
Number of employees	3	4
	<u>5</u>	<u>5</u>

During the Track Record Period, no emolument was paid to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as compensation of loss of office and no bonus was paid or payable by the Group to the five highest paid individuals based on the performance of the Group.

The emoluments of individuals other than directors with the highest emoluments are within the following bands:

	Year ended 31 March	
	2012	2013
Number of individuals		
HK\$Nil up to HK\$1,000,000	3	3
HK\$1,000,001–HK\$1,500,000	—	1
	<u>3</u>	<u>4</u>

10. TAXATION

(a) Income tax in the combined statements of comprehensive income represents:

	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
Current tax — Hong Kong profits tax		
Provision for the year	9,546	7,185
Deferred taxation (<i>Note 24</i>)	<u>16</u>	<u>35</u>
	<u>9,562</u>	<u>7,220</u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

No provision for profits tax in the Cayman Islands and BVI have been made as the Group has no income assessable for tax in these jurisdictions during the Track Record Period.

Reconciliation between tax expenses and accounting profit at the applicable tax rates:

	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
Profit before taxation	<u>52,594</u>	<u>46,484</u>
Tax at the applicable tax rate of 16.5%	8,678	7,670
Tax effect of non-taxable income	(2)	(483)
Tax effect on non-deductible expenses	821	613
Tax effect of tax losses not recognised	184	224
Utilisation of tax losses previously not recognised	—	(6)
Special tax reduction	(48)	(40)
Others	<u>(71)</u>	<u>(758)</u>
Actual tax expense	<u>9,562</u>	<u>7,220</u>

(b) Tax payables/(recoverable) in the combined statements of financial position represents:

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
At beginning of the year	11,663	21,076
Provision for the year	9,546	7,185
Tax paid	<u>(133)</u>	<u>(28,277)</u>
At end of the year	<u>21,076</u>	<u>(16)</u>

11. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

	Year ended 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared by Wisdom Come Medical during the year	31,000	20,000
Final dividend declared by Wisdom Come Medical in respect of the year ended 31 March 2012	<u>—</u>	<u>20,000</u>
	<u>31,000</u>	<u>40,000</u>

The dividends represented those declared by Wisdom Come Medical to its shareholder. The rate of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusions, for the purpose of this report, is not considered meaningful due to the Reorganisation and preparation of the results for the Track Record Period on combined basis as disclosed in note 1 above.

13. EMPLOYEE RETIREMENT BENEFITS**Defined contribution retirement plan**

The Group operates a Mandatory Provident Fund Scheme (“**the MPF scheme**”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$25,000 (HK\$20,000 prior to June 2012). Contributions to the plan vest immediately.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings held for own use carried at cost <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
At 1 April 2011	9,737	1,555	363	985	259	12,899
Additions	<u>5,293</u>	<u>269</u>	<u>207</u>	<u>222</u>	<u>—</u>	<u>5,991</u>
At 31 March 2012 and 1 April 2012	15,030	1,824	570	1,207	259	18,890
Additions	—	1,671	108	958	149	2,886
Disposals	<u>(915)</u>	<u>—</u>	<u>—</u>	<u>(4)</u>	<u>—</u>	<u>(919)</u>
At 31 March 2013	<u>14,115</u>	<u>3,495</u>	<u>678</u>	<u>2,161</u>	<u>408</u>	<u>20,857</u>
Accumulated depreciation						
At 1 April 2011	501	335	258	557	52	1,703
Charge for the year	<u>276</u>	<u>350</u>	<u>60</u>	<u>146</u>	<u>52</u>	<u>884</u>
At 31 March 2012 and 1 April 2012	777	685	318	703	104	2,587
Charge for the year	403	611	132	257	64	1,467
Written back on disposals	<u>(63)</u>	<u>—</u>	<u>—</u>	<u>(2)</u>	<u>—</u>	<u>(65)</u>
At 31 March 2013	<u>1,117</u>	<u>1,296</u>	<u>450</u>	<u>958</u>	<u>168</u>	<u>3,989</u>
Carrying amount						
At 31 March 2012	<u>14,253</u>	<u>1,139</u>	<u>252</u>	<u>504</u>	<u>155</u>	<u>16,303</u>
At 31 March 2013	<u>12,998</u>	<u>2,199</u>	<u>228</u>	<u>1,203</u>	<u>240</u>	<u>16,868</u>

The leasehold land and buildings held for own use are located in Hong Kong under medium term lease and are pledged to a bank to secure banking facilities granted to the Group (note 21).

The carrying amount of motor vehicles includes an amount of HK\$155,000 and HK\$104,000 in respect of asset under finance lease at 31 March 2012 and 31 March 2013, respectively.

15. INVENTORIES

(a) Inventories in the combined statements of financial position comprise:

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
Raw materials	8,708	10,748
Finished goods	<u>2,401</u>	<u>2,017</u>
	<u>11,109</u>	<u>12,765</u>

(b) The analysis of the amount of inventories recognised as an expense and included in the combined statements of comprehensive income is as follows:

	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
Carrying amount of inventories sold	30,940	34,118
Write down of inventories	1,962	1,147
Reversal of write-down of inventories (<i>note i</i>)	<u>(453)</u>	<u>(508)</u>
	<u>32,449</u>	<u>34,757</u>

Note:

(i) The amount was resulted from the utilisation of obsolete inventories that were written down in prior years.

16. TRADE AND OTHER RECEIVABLES

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
Trade receivables	22,277	24,090
Less: Allowance for doubtful debts	<u>—</u>	<u>—</u>
	22,277	24,090
Other receivables	<u>166</u>	<u>112</u>
Loans and receivables	<u>22,443</u>	<u>24,202</u>
Prepayments	6	812
Deposits	<u>4,855</u>	<u>7,558</u>
	<u>4,861</u>	<u>8,370</u>
	<u>27,304</u>	<u>32,572</u>

The amount of the Group's deposits expected to be recovered or recognised as expense after more than one year are HK\$4,855,000 for the year ended 31 March 2012 and HK\$3,601,000 for the year ended 31 March 2013. Except these deposits, all of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

Including in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis presented based on invoice date as at the end of the reporting period:

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
0–30 days	20,731	21,202
31–60 days	1,504	2,413
61–90 days	1	111
91–180 days	11	290
181–365 days	11	57
Over 365 days	19	17
	<u>22,277</u>	<u>24,090</u>

Trade receivables are normally due within 0–120 days from the date of billing. Further details on the Group's credit policy are set out in note 3(a)(i).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (see note 2(h)). During the Track Record Period, no impairment is recognised in respect of trade receivables.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
Neither past due nor impaired	22,236	23,726
Past due but not impaired		
Less than 1 month past due	—	72
1 to 3 months past due	11	218
3 months to 1 year past due	11	57
Over 1 year past due	19	17
	<u>22,277</u>	<u>24,090</u>

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

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

17. PLEDGED BANK DEPOSIT

During the Track Record Period, the banking facilities including short-term bank borrowings, if any, of the Group were secured by a bank deposit amounting to HK\$nil and HK\$5,000,000 at 31 March 2012 and 31 March 2013 respectively. None of the banking facilities was utilised during the Track Record Period. Since the banking facilities were to provide short-term bank borrowings if necessary, the pledged bank deposit was classified as current asset.

The interest rate on the deposit was nil and 0.01% per annum for the years ended 31 March 2012 and 31 March 2013 respectively.

18. CASH AND CASH EQUIVALENTS

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash at bank and on hand	34,732	15,628
Bank deposit	<u>80</u>	<u>80</u>
Cash and cash equivalents in the combined statements of financial position and combined statements of cash flows	<u><u>34,812</u></u>	<u><u>15,708</u></u>

The interest rates on the cash at bank and deposit with a bank ranged from 0% to 0.01% per annum during the Track Record Period.

19. TRADE AND OTHER PAYABLES

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	4,181	3,013
Salary and welfare payables	8,489	3,317
Accrued advertising expenses	3,971	4,346
Other payables and accruals	<u>5,053</u>	<u>2,526</u>
Financial liabilities measured at amortised cost	<u><u>21,694</u></u>	<u><u>13,202</u></u>

The following is an ageing analysis of trade payables presented based on invoice dates as at the end of the reporting period:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–30 days	1,073	688
31–60 days	1,293	497
61–90 days	427	259
91–180 days	112	278
181–365 days	10	15
Over 1 year	<u>1,266</u>	<u>1,276</u>
	<u><u>4,181</u></u>	<u><u>3,013</u></u>

20. OBLIGATIONS UNDER FINANCE LEASE

	Total minimum lease payments		Present value of minimum lease payment	
	31 March 2012	31 March 2013	31 March 2012	31 March 2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:				
Within one year	96	48	90	47
After 1 year but within 2 years	48	—	47	—
	144	48	137	47
Less: Finance charges	(7)	(1)		
Present value of finance lease payable	137	47		
Less: Portion classified as current liabilities	(90)	(47)		
Non-current portion	47	—		

The finance lease obligations are secured by a motor vehicle of the Group with a carrying amount as at 31 March 2012: HK\$155,000 and 31 March 2013: HK\$104,000. The remaining lease payments outstanding are due within two years. Interest rate is fixed at 3.5% per annum. No arrangement has been entered into for contingent rental payment for the Track Record Period.

21. SECURED BANK LOANS

The analysis of the carrying amount of secured bank loans is as follows:

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
Carrying amount of bank loans that contain a repayment on demand clause:		
Repayable within one year	529	544
Repayable after one year (shown under current liabilities)	3,491	2,947
	4,020	3,491

At 31 March 2012 and 31 March 2013, total interest-bearing bank loans of approximately HK\$4,020,000 and HK\$3,491,000 respectively were due for repayment as follows:

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
Portion of term loans due for repayment within one year	529	544
Term loans due for repayment after one year (<i>note</i>):		
After 1 year but within 2 years	544	559
After 2 years but within 5 years	1,725	1,691
Over 5 years	1,222	697
	3,491	2,947
	4,020	3,491

Note:

The amounts due are based on scheduled repayment dates as stipulated in the respective loan agreements.

All of the banking facilities are subject to the fulfillment of covenants. If the Group were in breach of the covenants, the drawn down facilities would become repayable on demand. In addition, all of the Group's bank loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 3(a)(ii). During the Track Record Period, none of the covenants relating to drawn down facilities had been breached.

All of the secured bank loans, including amounts repayable on demand, are carried at amortised cost.

The effective interest rates (which are also equal to contractual interest rates) on the Group's variable-rate borrowings is carrying at 2.5% per annum below the Hong Kong Dollar Prime Rate of Chong Hing Bank during the Track Record Period.

During the Track Record Period, the secured bank loans of the Group are secured by the leasehold land and buildings with carrying amount of HK\$6,491,000 at 31 March 2012 and HK\$6,307,000 at 31 March 2013 (note 14). Such banking facilities amounting to HK\$9,515,000 at 31 March 2012 and HK\$9,515,000 at 31 March 2013 were utilised to the extent of HK\$4,020,000 at 31 March 2012 and HK\$3,491,000 at 31 March 2013. The pledged assets will be released upon the settlement of the relevant bank borrowings. For other banking facilities, refer to note 17.

22. AMOUNTS DUE TO RELATED PARTIES

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to a director		
— Chan Yan Tak	2,418	29
Amount due to ultimate holding company		
— Able Island	—	26,500
	<u>2,418</u>	<u>26,529</u>

The amounts were unsecured, interest-free and repayable on demand.

23. PROVISIONS

	Goods return from customers
	<i>HK\$'000</i>
At 1 April 2011	972
Additional provisions made	2,620
Provisions utilised	<u>(2,732)</u>
At 31 March 2012 and 1 April 2012	860
Additional provisions made	1,305
Provisions utilised	<u>(1,127)</u>
At 31 March 2013	<u>1,038</u>

The Group cannot reliably estimate the amounts that may eventually be settled after more than 12 months from the end of the reporting period. Thus, the whole amount was classified as current.

Note:

The provision for goods return from customers represents the present value of the directors' best estimate of future outflow of economic benefits that will be required under the Group's obligations under the goods return policy. The estimate has been made on the basis of historical trends on goods return.

24. DEFERRED TAX LIABILITIES

- (a) The deferred tax liabilities recognised in the combined statement of financial position and the movements during the Track Record Period are as follows:

Accelerated tax depreciation

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
At beginning of the year	20	36
Charged to profit or loss	<u>16</u>	<u>35</u>
At end of the year	<u><u>36</u></u>	<u><u>71</u></u>

- (b) Deferred tax assets in respect of the unused tax losses carried forward are to be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has not recognised deferred tax assets in respect of the tax losses of HK\$7,936,000 and HK\$9,263,000 as at the years ended 2012 and 2013 respectively due to the unpredictability of future profit streams. The unrecognised tax losses can be carried forward indefinitely.

25. SHARE CAPITAL

For the purpose of the preparation of the combined statements of financial position, the balances of the paid-up capital at 31 March 2012 and 31 March 2013, represent the aggregate amount of the paid-in capital of the following companies:

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
RM Group Holdings Limited (<i>note (i)</i>)	—	—
Noble State (<i>note (i)</i>)	—	—
Wisdom Come Medical (<i>note (i)</i>)	—	—
Medalist (<i>note (i)</i>)	—	—
Kiwi Lab (<i>note (i)</i>)	—	—
Health Proof International (<i>note (i)</i>)	<u>—</u>	<u>—</u>
Share capital	<u><u>—</u></u>	<u><u>—</u></u>

Note (i): The share capital of these companies are all less than HK\$1,000.

26. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provides information about components of the Group. Information reported to the Board of Directors, being the chief operating decision maker (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on brands of goods delivered.

Specifically, the Group’s reportable and operating segments under HKFRS 8 are as follows:

- Proprietary brands comprise the development, manufacturing and sales of self-developed health supplements
- Proprietary brands comprise the development, manufacturing and sales of self-developed beauty supplements and products
- Private label brands comprise the development, manufacturing and sales of health supplements
- Private label brands comprise the development, manufacturing and sales of beauty supplements and products

Other items mainly relate to the provision of Chinese medical consultation services. These activities are excluded from the reportable operating segments as these activities are insignificant and not specifically reported to the Board of Directors.

(a) Segment results, assets and liabilities

Information regarding the Group’s reportable segments as provided to the Board of Directors for the purpose of resource allocation and assessment of segment performance for the years ended 31 March 2012 and 2013 is set out below:

	Year ended 31 March 2012					Total HK\$'000
	Proprietary brands		Private label brands		Other items HK\$'000	
	Health supplements HK\$'000	Beauty and products HK\$'000	Health supplements HK\$'000	Beauty and products HK\$'000		
Revenue from external customers	105,667	30,256	3,802	18,528	540	158,793
Cost of sales	(19,102)	(8,626)	(681)	(3,759)	(281)	(32,449)
Gross profit	86,565	21,630	3,121	14,769	259	126,344
Selling and distribution expenses	(21,412)	(5,403)	(366)	(3,392)	—	(30,573)
Administrative expenses	(6,185)	(729)	(890)	(785)	—	(8,589)
Segment results	<u>58,968</u>	<u>15,498</u>	<u>1,865</u>	<u>10,592</u>	<u>259</u>	87,182
Other revenue and other net income						31
Unallocated head office and corporate expenses						(34,488)
Finance costs						(131)
Profit before tax						<u>52,594</u>

	Year ended 31 March 2013					
	Proprietary brands		Private label brands		Other items	Total
	Beauty supplements		Beauty supplements			
	Health supplements	and products	Health supplements	and products		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue from external customers	105,168	27,203	14,914	15,637	845	163,767
Cost of sales	(21,419)	(7,152)	(2,071)	(3,728)	(387)	(34,757)
Gross profit	83,749	20,051	12,843	11,909	458	129,010
Selling and distribution expenses	(24,200)	(6,868)	(2,043)	(4,697)	—	(37,808)
Administrative expenses	(5,603)	(985)	(4,673)	(1,495)	—	(12,756)
Segment results	<u>53,946</u>	<u>12,198</u>	<u>6,127</u>	<u>5,717</u>	<u>458</u>	78,446
Other revenue and other net income						1,337
Unallocated head office and corporate expenses						(33,189)
Finance costs						(110)
Profit before tax						<u>46,484</u>

For the purpose of assessing segment performance and allocating resources between segments, the CODM monitors the results attributable to each reportable segment with reference to sales generated by those segments and the expenses incurred by those segments. Segment results are evaluated based on reportable segment profit/loss, which is a measure of adjusted operating profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that head office, corporate income and expenses and finance costs are excluded from such measurement. No segment assets and liabilities information is presented as, in the opinion of the directors, such information is not key indicator provided to the Group's CODM.

There are no significant inter-segment transfers or transactions.

Other segment information (included in the measure of segment profit or loss or regularly provided to the CODM)

	Depreciation	
	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
Proprietary brands		
— Health supplements	181	304
— Beauty supplements and products	52	79
Private label brands		
— Health supplements	6	43
— Beauty supplements and products	32	46
Unallocated	<u>613</u>	<u>995</u>
Total	<u>884</u>	<u>1,467</u>

(b) Geographical information

The geographical location of customers is based on the location at which the goods are delivered and services provided. Substantially, all of the Group's revenue from external customers, non-current assets and capital expenditure are located in Hong Kong and therefore no analysis on revenue from external customers and non-current assets by location is presented.

(c) Information about major customer

Revenues from external customer contributing 10% or more of the total revenue from the Group is as follows:

	Year ended 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A (<i>note (i)</i>)	<u>123,286</u>	<u>116,957</u>

Note:

(i) The sales were derived from the following segments:

- Proprietary brands comprise the development, manufacturing and sales of self-developed health supplements;
- Proprietary brands comprise the development, manufacturing and sales of self-developed beauty supplements and products;
- Private label brands comprise the development, manufacturing and sales of health supplements; and
- Private label brands comprise the development, manufacturing and sales of beauty supplements and products.

27. OPERATING LEASE COMMITMENTS**The Group as lessee**

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 March	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	106	189
In the second to fifth year, inclusive	<u>57</u>	<u>132</u>
	<u>163</u>	<u>321</u>

The Group leases warehouses under non-cancellable operating lease arrangements with lease terms of 2 years.

28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the Group had the following transactions with its related parties during the Track Record Period:

(a) Related party transactions included in the statement of financial position

	As at 31 March	
	2012	2013
	HK\$'000	HK\$'000
Amount due to ultimate holding company, Able Island		
Repaid to	31,785	13,500
Dividends	(31,000)	(40,000)
Outstanding balance (<i>note 22</i>)	<u>—</u>	<u>(26,500)</u>
Amount due to a director, Chan Yan Tak		
Repaid to	26,576	5,003
Advanced from	(25,826)	(2,614)
Outstanding balance (<i>note 22</i>)	<u>(2,418)</u>	<u>(29)</u>

(b) Related party transactions included in statement of comprehensive income

	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
Consultancy fees to		
— Wisdom Professional Training Limited (<i>note (i)</i>)	20	—
— Sky Leader Consultants Limited (<i>note (ii)</i>)	125	—
— Wisdom Creator Limited (<i>note (i)</i>)	<u>100</u>	<u>—</u>
	<u>245</u>	<u>—</u>

Notes:

- (i) The consultancy fees were charged for consultancy services rendered by companies wholly and beneficially owned by Ms. Yuen Yee Han, Ady, a member of the key management personnel of the Group.
- (ii) The consultancy fees were charged for consultancy services rendered by a company wholly and beneficially owned by Ms. Wong Chui Lan, a member of the key management personnel of the Group.

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Year ended 31 March	
	2012	2013
	HK\$'000	HK\$'000
Short-term employee benefits	7,297	4,164
Post-employment benefits	<u>38</u>	<u>80</u>
	<u>7,335</u>	<u>4,244</u>

(d) Guarantees provided by a director

At 31 March 2012 and 2013, certain banking facilities of the Group were secured by the guarantee in the amount of HK\$11,515,000 and HK\$9,515,000 respectively provided by a director of the Company. At 31 March 2013, certain banking facilities of the Group were secured by the unlimited personal guarantee of a director. The guarantee provided by the director will be released before the listing of the Company's shares on the Stock Exchange.

(e) Guarantees provided by a fellow subsidiary of the Company

At 31 March 2012 and 2013, certain banking facilities of the Group were secured by the guarantee in the amount of HK\$3,500,000 and HK\$1,500,000 respectively provided by a fellow subsidiary of the Company. The guarantee provided by a related company will be released before the listing of the Company's shares on the Stock Exchange.

29. LOANS MADE BY RELATED PARTIES UNDER A GUARANTEE GIVEN BY THE COMPANY

Name of related party	Particulars of guarantee	Maximum liability under the guarantee	
		2012	2013
		HK\$'000	HK\$'000
Royal Trendy Limited (<i>note i</i>)	Guarantee given by a subsidiary to a bank in respect of loans of HK\$1,575,000 and HK\$7,000,000 expiring on 14 March 2026 and 15 June 2030	8,575	8,575
Chan Yan Tak (<i>note ii</i>)	Guarantee given by a subsidiary to a bank in respect of a loan of HK\$5,658,000 expiring on 25 May 2021	5,658	5,658
		<u> </u>	<u> </u>

Notes:

- (i) Royal Trendy Limited is a company wholly owned by Tsang Pui Man, spouse of Chan Yan Tak, a director of the Company. The guarantee will expire on 14 March 2026 and 15 June 2030 in respect of the loans of HK\$1,575,000 and HK\$7,000,000 respectively when Royal Trendy Limited fully repaid the bank loans. The guarantee given to Royal Trendy Limited will be released before the listing of the Company's shares on the Stock Exchange.
- (ii) The guarantee will expire on 25 May 2021 when Chan Yan Tak, a director of the Company, fully repaid the bank loan. The guarantee given to Chan Yan Tak will be released before the listing of the Company's shares on the Stock Exchange.

Up to 31 March 2013, the Group had not paid or incurred any liability for the purpose of fulfilling the guarantee or discharging the security.

The guarantees are given without recourse to the related company and a director of the Company.

No recognition was made during the Track Record Period because the fair value of the guarantees were insignificant and that the directors of the Company do not consider it probable that a claim will be made against the Group under the guarantees.

30. NON-CASH TRANSACTIONS

In respect of the years ended 31 March 2012 and 2013, the interim dividend in the amount of HK\$31,000,000 and HK\$20,000,000 respectively and final dividend in the amount of HK\$nil and HK\$20,000,000 respectively were declared by Wisdom Come Medical prior to the Reorganisation were settled by crediting the current account of the ultimate holding company of the Group, these were non-cash transactions.

B. FINANCIAL INFORMATION OF THE COMPANY

		As at 31 March 2012 HK\$'000	As at 31 March 2013 HK\$'000
	<i>Note</i>		
Current liabilities			
Amounts due to subsidiaries	(i)	(44)	(228)
Net current liabilities		(44)	(228)
Net liabilities		(44)	(228)
Equity			
Equity attributable to owners of the Company			
Share capital		—	—
Reserves		(44)	(228)
Total equity		(44)	(228)

Note:

- (i) The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

C. DISTRIBUTABILITY OF RESERVES

The Company was incorporated on 5 December 2011 and has not carried on any business since the date of its incorporation. Accordingly, the Company had no reserves available for distribution to the owner up to 31 March 2013.

D. ULTIMATE HOLDING COMPANY, IMMEDIATE HOLDING COMPANY AND CONTROLLING SHAREHOLDERS

After the completion of the Reorganisation, the immediate and ultimate holding company of the companies comprising the Group is Able Island Group Limited, a company incorporated in the British Virgin Islands. The controlling shareholders of the Group are Mr. Chan Yan Tak and Able Island.

E. EVENTS AFTER THE REPORTING PERIOD**(1) Share option scheme**

Pursuant to the sole shareholder's written resolutions passed on 24 September 2013, a share option scheme was conditionally adopted.

(2) Disposal of subsidiaries

- (i) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Mr. Chan Yan Tak, chairman and executive director of the Company, to dispose its entire interests in its subsidiary, Xaxon, at a consideration of HK\$1. The net liability of Xaxon as at 31 March 2013 amounted to approximately HK\$9,000. The disposal is completed on 10 September 2013. Upon completion, Xaxon will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.
- (ii) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in Wealth International Group, at a consideration of HK\$1. The net liability of Wealth International Group as at 31 March 2013 amounted to approximately HK\$1,988,000. The disposal is completed on 10 September 2013. Upon completion, Wealth International Group will cease to be subsidiaries of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.
- (iii) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in its subsidiary, Men 100, at a consideration of HK\$1. The net liability of Men 100 as at 31 March 2013 amounted to approximately HK\$21,000. The disposal is completed on 10 September 2013. Upon completion, Men 100 will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.
- (iv) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in Royal Medic Management, at a consideration of HK\$1. The net liability of Royal Medic Management as at 31 March 2013 amounted to approximately HK\$23,000. The disposal is completed on 10 September 2013. Upon completion, Royal Medic Management will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.
- (v) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in Sky China, at a consideration of HK\$1. The net liability of Sky China as at 31 March 2013 amounted to approximately HK\$49,000. The disposal is completed on 10 September 2013. Upon completion, Sky China will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.

- (vi) On 10 September 2013, Wisdom Come Medical, a subsidiary of the Group, entered into a sales and purchase agreement with Xaxon, to dispose its entire interests in Wise Medic, at a consideration of HK\$1. The net liability of Wise Medic as at 31 March 2013 amounted to approximately HK\$10,000. The disposal is completed on 11 September 2013. Upon completion, Wise Medic will cease to be subsidiary of Wisdom Come Medical and its financial results will no longer be consolidated into the Group's financial statements.

F. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries comprising the Group in respect of any period subsequent to 31 March 2013.

Yours faithfully
CCIF CPA Limited
Certified Public Accountants
Hong Kong
Kwok Cheuk Yuen
Practising Certificate Number P02412

APPENDIX II	UNAUDITED PRO FORMA FINANCIAL INFORMATION
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The information set out in this appendix does not form part of the Accountants' Report received from CCIF CPA Limited as set out in Appendix I to this prospectus, and is included herein for information only.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Placing on the Group's net tangible assets as at 31 March 2013 as if the Placing had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of the Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of the Group's net tangible assets had the Placing been completed as at 31 March 2013 or at any future date.

The unaudited pro forma adjusted combined net tangible assets, as shown in the unaudited pro forma financial information, are calculated based on the Group audited combined net tangible assets attributable to owners of the Company as at 31 March 2013, the text of which is set out in Appendix I to this prospectus, and is adjusted as described below.

	Audited combined net tangible assets of the Group as of 31 March 2013 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from Placing <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets <i>HK\$'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i> <i>(Note 3)</i>
Based on Placing Price of HK\$0.76 per Share	38,551	80,512	119,063	0.23
Based on Placing Price of HK\$1.07 per Share	38,551	119,488	158,039	0.31

Notes:

- (1) The audited combined net tangible assets attributable to the owners of the Company as at 31 March 2013 is arrived based on the Group's audited combined net tangible assets of approximately HK\$38,551,000 as at 31 March 2013 extracted from the accountants' report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Placing are based on the Placing Price of HK\$0.76 per Share or HK\$1.07 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. The calculation of the estimated net proceeds from the Placing does not take into account any Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Placing payable to the Company as described in note (2) and on the basis that a total of 515,000,000 Shares were in issue as at 31 March 2013 (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Placing and the Capitalisation Issue).
- (4) Details of valuation of the Company's properties interest as at 30 June 2013 are set out in Appendix III to this prospectus. The revaluation surplus or deficit will not be incorporated in the Company's financial statements for the year ending 31 March 2014. The Company's accounting policy is to state its leasehold land and building at cost less accumulated depreciation and any impairment loss in accordance with the relevant HKASs, rather than at revalued amounts. With reference to the valuation of the Company's property interests as set out in Appendix III to this prospectus, there was a revaluation surplus of the Company's properties of approximately HK\$30,802,000. If the revaluation surplus was incorporated in the Company's financial statements for the year ending 31 March 2014, an additional depreciation of approximately HK\$616,000 per annum would be incurred.

B. ACCOUNTANTS' REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, CCIF CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in the prospectus.



CCIF

CCIF CPA LIMITED
陳葉馮會計師事務所有限公司

9/F Leighton Centre
77 Leighton Road
Causeway Bay Hong Kong
香港 銅鑼灣 禮頓道77號
禮頓中心9樓

30 September 2013

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE
DIRECTORS OF RM GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of RM Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 31 March 2013 and related notes as set out on Section A of Appendix II to the prospectus issued by the Company dated 30 September 2013 (the “**Prospectus**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on Section A of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed listing on the Group's financial position as at 31 March 2013 as if the proposed listing had taken place at 31 March 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the year ended 31 March 2013, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

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

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the 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.

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

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2013 would have been as presented.

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

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

Opinion

In our opinion:

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

CCIF CPA Limited

Certified Public Accountants

Hong Kong

Kwok Cheuk Yuen

Practising Certificate Number P02412

The following is the text of a letter, summary of valuation and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 30 June 2013 of the property interests held by the Group.



Asset Appraisal Limited
中誠達資產評估顧問有限公司

Rm 901, 9/F., On Hong Commercial Building
 145 Hennessy Road, Wanchai, Hong Kong
 香港灣仔軒尼詩道145號
 安康商業大廈9字樓901室
 Tel : (852) 2529 9448 Fax : (852) 3521 9591

30 September 2013

The Board of Directors
RM Group Holdings Limited

Dear Sirs,

Re: Valuation of property interests situated in Hong Kong

In accordance with the instructions from **RM Group Holdings Limited** (the “**Company**”) to value the property interests (the “**Properties**”) held by the Company or its subsidiaries (altogether referred to as the “**Group**”) situated in Hong Kong, we confirm that we have carried out inspections of the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at **30 June 2013** (the “**date of valuation**”).

BASIS OF VALUATION

Our valuation of the Properties represents the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

TITLESHIP

We have caused searches to be made at the appropriate Land Registry for the Properties. However, we have not verified ownership of the Properties or to verify the existence of any amendments which do not appear on the copies handed to us. All documents have been used for reference only.

VALUATION METHODOLOGY

The Properties are valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

The property rented by the Group has no commercial value due either to the non-assignable nature of the Group’s leasehold interests or the lack of substantial profit rent.

ASSUMPTIONS

Our valuation has been made on the assumption that the Group sell the Properties on the market in their existing states without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the Properties.

As the Properties are held by the owner by means of long term Government lease, we have assumed that the owner has a free and uninterrupted right to use the Properties for the whole of the unexpired term of its Government Lease.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties nor 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 outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the areas shown on the documents and official plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

The Properties were inspected on 11 March 2013 by Mr. Liu Ho Chi, who is a member of The Hong Kong Institute of Surveyors and a member of the Royal Institution of Chartered Surveyors. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the Properties, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited
Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Property	Market Value in existing state as at 30 June 2013 HK\$
Group I — Property interests held and occupied by the Group	
1. Workshop 1, 2, 3 and 4 on 21/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	12,900,000
2. 3/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	12,300,000
3. Workshop 3 on 22/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	2,800,000
4. Workshop 1 and 2 on 5/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	7,500,000
5. Workshop 3 and 4 on 5/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	5,400,000
6. Workshop 3 on 23/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	2,800,000

Property	Market Value in existing state as at 30 June 2013 HK\$
Group II — Property rented by the Group	
7. Workshop 3 on 24/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	No commercial value
	<hr/>
Grand Total:	<u>43,700,000</u>

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2013 HK\$
1. Workshop 1, 2, 3 and 4 on 21/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong 74/1,900th equal and undivided shares of and in Section C of Lot No. 693 in D.D. 445	The property comprises four industrial units on 21st Floor of a 27-storey industrial building completed in about 1989. The total gross floor area of the property is approximately 7,352 square feet (683.02 square metres). The total saleable area of the property is approximately 5,541 square feet (514.78 square metres). Section C of Lot No. 693 in D.D. 445 is held under New Grant No. 3554 for a term of 75 years renewable for a further 24 years commencing from 1 July 1898 and is statutorily extended to 30 June 2047. The Government Rent payable for the lot is HK\$1,700 per annum.	The property is occupied by the Group for administrative office and warehouse.	12,900,000

Notes:

1. The registered owner of the property is Rich Sunny Investment Limited, an indirect wholly-owned subsidiary of the Company, registered vide memorial no. 06081501860019 dated 27 July 2006.
2. Deed of Mutual Covenant and Management Agreement of the subject development was registered vide memorial no. TW592449 dated 6 June 1989.
3. The property is subject to mortgage in favour of Chong Hing Bank Limited registered vide memorial no. 07123102390053 dated 5 December 2007.
4. The property falls within an area zoned as “Industrial” under approved Kwai Chung Outline Zoning Plan no. S/KC/26.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2013 HK\$
2. 3/F, Man Shing Industrial Building, Nos. 307-311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong 73/1,900th equal and undivided shares of and in Section C of Lot No. 693 in D.D. 445	<p>The property comprises the whole industrial space on 3rd Floor of a 27-storey industrial building completed in about 1989.</p> <p>The gross floor area of the property is approximately 7,042 square feet (654.22 square metres).</p> <p>The saleable area of the property is approximately 5,327 square feet (494.89 square metres).</p> <p>Section C of Lot No. 693 in D.D. 445 is held under New Grant No. 3554 for a term of 75 years renewable for a further 24 years commencing from 1 July 1898 and is statutorily extended to 30 June 2047. The Government Rent payable for the lot is HK\$1,700 per annum.</p>	<p>The property is occupied by the Group for warehouse and workshop.</p>	12,300,000

Notes:

1. The registered owner of the property is Rich Sunny Investment Limited, an indirect wholly-owned subsidiary of the Company, registered vide memorial no. 10030500590023 dated 5 February 2010.
2. Deed of Mutual Covenant and Management Agreement of the subject development was registered vide memorial no. TW592449 dated 6 June 1989.
3. The property is subject to mortgage in favour of Chong Hing Bank Limited registered vide memorial no. 10072700090015 dated 13 July 2010.
4. The property falls within an area zoned as "Industrial" under approved Kwai Chung Outline Zoning Plan no. S/KC/26.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2013 HK\$
3. Workshop 3 on 22/F, Man Shing Industrial Building, Nos. 307-311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong 16/1,900th equal and undivided shares of and in Section C of Lot No. 693 in D.D. 445	The property comprises an industrial unit on 22nd Floor of a 27-storey industrial building completed in about 1989. The gross floor area of the property is approximately 1,596 square feet (148.27 square metres). The saleable area of the property is approximately 1,208 square feet (112.23 square metres). Section C of Lot No. 693 in D.D. 445 is held under New Grant No. 3554 for a term of 75 years renewable for a further 24 years commencing from 1 July 1898 and is statutorily extended to 30 June 2047. The Government Rent payable for the lot is HK\$1,700 per annum.	The property is occupied by the Group as workshop.	2,800,000

Notes:

1. The registered owner of the property is Rich Sunny Investment Limited, an indirect wholly-owned subsidiary of the Company, registered vide memorial no. 08012503000049 dated 28 December 2007.
2. Deed of Mutual Covenant and Management Agreement of the subject development was registered vide memorial no. TW592449 dated 6 June 1989.
3. The property is subject to mortgage in favour of Chong Hing Bank Limited registered vide memorial no. 08012503000052 dated 28 December 2007.
4. The property falls within an area zoned as "Industrial" under approved Kwai Chung Outline Zoning Plan no. S/KC/26.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2013 HK\$
4. Workshop 1 and 2 on 5/F, Man Shing Industrial Building, Nos. 307-311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong 43/1,900th equal and undivided shares of and in Section C of Lot No. 693 in D.D. 445	The property comprises two industrial units on 5th Floor of a 27-storey industrial building completed in about 1989. The gross floor area of the property is approximately 4,291 square feet (398.65 square metres). The saleable area of the property is approximately 3,225 square feet (299.61 square metres). Section C of Lot No. 693 in D.D. 445 is held under New Grant No. 3554 for a term of 75 years renewable for a further 24 years commencing from 1 July 1898 and is statutorily extended to 30 June 2047. The Government Rent payable for the lot is HK\$1,700 per annum.	The property is occupied by the Group as warehouse.	7,500,000

Notes:

1. The registered owner of the property is Power Regal International Limited, an indirect wholly-owned subsidiary of the Company, registered vide memorial no. 12040500810039 dated 8 March 2012.
2. Deed of Mutual Covenant and Management Agreement of the subject development was registered vide memorial no. TW592449 dated 6 June 1989.
3. The property falls within an area zoned as "Industrial" under approved Kwai Chung Outline Zoning Plan no. S/KC/26.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2013 HK\$
5. Workshop 3 and 4 on 5/F, Man Shing Industrial Building, Nos. 307-311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	<p>The property comprises two industrial units on 5th Floor of a 27-storey industrial building completed in about 1989.</p> <p>The gross floor area of the property is approximately 3,061 square feet (284.38 square metres).</p> <p>The saleable area of the property is approximately 2,316 square feet (215.16 square metres).</p> <p>Section C of Lot No. 693 in D.D. 445 is held under New Grant No. 3554 for a term of 75 years renewable for a further 24 years commencing from 1 July 1898 and is statutorily extended to 30 June 2047. The Government Rent payable for the lot is HK\$1,700 per annum.</p>	The property is occupied by the Group as warehouse.	5,400,000

Notes:

1. The registered owner of the property is Rich Sunny Investment Limited, an indirect wholly-owned subsidiary of the Company, registered vide memorial no. 10090600010026 dated 9 August 2010.
2. Deed of Mutual Covenant and Management Agreement of the subject development was registered vide memorial no. TW592449 dated 6 June 1989.
3. The property falls within an area zoned as "Industrial" under approved Kwai Chung Outline Zoning Plan no. S/KC/26.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2013 HK\$
6. Workshop 3 on 23/F, Man Shing Industrial Building, Nos. 307-311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong 16/1,900th equal and undivided shares of and in Section C of Lot No. 693 in D.D. 445	The property comprises an industrial unit on 23rd Floor of a 27-storey industrial building completed in about 1989. The gross floor area of the property is approximately 1,596 square feet (148.27 square metres). The saleable area of the property is approximately 1,208 square feet (112.23 square metres). Section C of Lot No. 693 in D.D. 445 is held under New Grant No. 3554 for a term of 75 years renewable for a further 24 years commencing from 1 July 1898 and is statutorily extended to 30 June 2047. The Government Rent payable for the lot is HK\$1,700 per annum.	The property is occupied by the Group as workshop.	2,800,000

Notes:

1. The registered owner of the property is Rich Sunny Investment Limited, an indirect wholly-owned subsidiary of the Company, registered vide memorial no. 11122000100055 dated 28 November 2011.
2. Deed of Mutual Covenant and Management Agreement of the subject development was registered vide memorial no. TW592449 dated 6 June 1989.
3. The property falls within an area zoned as "Industrial" under approved Kwai Chung Outline Zoning Plan no. S/KC/26.

VALUATION CERTIFICATE

Group II — Property rented by the Group

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2013 <i>HK\$</i>
7. Workshop 3 on 24/F, Man Shing Industrial Building, Nos. 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong	<p>The property comprises an industrial unit on 24th Floor of a 27-storey industrial building completed in about 1989.</p> <p>The gross floor area of the property is approximately 1,596 square feet (148.27 square metres).</p> <p>The saleable area of the property is approximately 1,208 square feet (112.23 square metres).</p> <p>The property is held by the Group under a leasehold interest for a lease term of 2 years commencing on 19 October 2011 and expiring on 18 October 2013 at a monthly rent of HK\$8,800 inclusive of management fee, rates and Government rent.</p>	The property is occupied by the Group as warehouse.	No commercial value

Notes:

1. The registered owner of the property is Cheng Kai Chung, an independent third party to the Group, registered vide memorial no. TW1605188 dated 21 October 2004.
2. Pursuant to a Tenancy Agreement entered into between Cheng Kai Chung and Rich Sunny Investment Limited, an indirect wholly-owned subsidiary of the Company, on 19 October 2011, the property is rented by Rich Sunny Investment Limited from Cheng Kai Chung or a lease term of 2 years commencing on 19 October 2011 and expiring on 18 October 2013 at a monthly rent of HK\$8,800 inclusive of management fee, rates and Government rent.
3. The property falls within an area zoned as “Industrial” under approved Kwai Chung Outline Zoning Plan no. S/KC/26.

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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 December 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

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

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 24 September 2013. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

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

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

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

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

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

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

(iii) Compensation or payments for loss of office

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

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

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

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

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the

board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

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

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

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

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

(vi) *Remuneration*

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

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

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

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-

employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting 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 re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

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

A Director may be removed by 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 any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

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

- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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

(viii) Borrowing powers

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

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

(ix) Proceedings of the Board

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

(x) Register of Directors and Officers

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

(b) Alterations to constitutional documents

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

(c) Alteration of capital

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

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

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

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

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

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

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

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

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

(f) Voting rights

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

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

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

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

(g) Requirements for annual general meetings

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

(h) Accounts and audit

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

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the

notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

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

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

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

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

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

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

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

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

(j) Transfer of shares

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

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

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

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

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

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

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

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

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

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

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

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

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

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

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

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

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

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

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

(n) Proxies

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

(o) Call on shares and forfeiture of shares

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

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

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

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

(p) Inspection of register of members

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

(q) Quorum for meetings and separate class meetings

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

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

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

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

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

(s) Procedures on liquidation

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

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

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

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

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

3. CAYMAN ISLANDS COMPANY LAW

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

(a) Operations

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

(b) Share capital

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

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

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

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

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

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

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

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

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

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not

be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

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

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

(e) Dividends and distributions

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

(f) Protection of minorities

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

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

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has

complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

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

(g) Management

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

(h) Accounting and auditing requirements

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

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

(i) Exchange control

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

(j) Taxation

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

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

The undertaking for the Company is for a period of twenty years from 20 December 2011.

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

(k) Stamp duty on transfers

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

(l) Loans to directors

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

(m) Inspection of corporate records

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

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

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

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or,

the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

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

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

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

(o) Reconstructions

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

(p) Compulsory acquisition

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

(q) Indemnification

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

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 December 2011 with its registered office located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company has established a principal place of business and head office in Hong Kong at 21st Floor, Man Shing Industrial Building, 307–311 Castle Peak Road, Kwai Chung, New Territories, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 5 April 2012. Mr. Chan of Flat A, 1/F, Block 1, Julimount Garden, 8–12 Fu Kin Street, Tai Wai, Shatin, New Territories, Hong Kong has been appointed as the authorised representatives of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution, which comprises the Memorandum and the Articles. A summary of various parts of the constitution and relevant aspects of the Cayman Islands company law is set out in Appendix IV to this prospectus.

2. Changes in share capital of the Company

- (a) The Company was incorporated in the Cayman Islands on 5 December 2011. As at the date of its incorporation, the Company has an authorised share capital of HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 each, of which one Share was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, being the subscriber to the Memorandum and the Articles. On 5 December 2011, the one Share held by Codan Trust Company (Cayman) Limited was transferred to Able Island.
- (b) On 16 September 2013, the share capital of the Company was subdivided in such manner that every existing Share of HK\$0.1 was sub-divided into ten Shares of HK\$0.01 each. Subsequent to the subdivision, the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 Shares and the issued share capital of the Company was HK\$0.1 divided into ten Shares.
- (c) On 23 September 2013, the Company allotted and issued 999,990 Shares (all credited as fully paid) to Able Island as part consideration for Able Island transferring the entire issued share capital in Noble State to the Company pursuant to a sale and purchase agreement entered into between the Company as purchaser and Able Island as vendor dated 23 September 2013.
- (d) On 24 September 2013, the authorised share capital of the Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of an additional 962,000,000 Shares of which the rights are identical to that of the existing Shares in all aspect pursuant to a resolution in writing passed by the sole Shareholder referred to in the paragraph headed “Written resolutions of the sole Shareholder” below.

Assuming the Placing becomes unconditional, immediately following completion of the Placing and the Capitalisation Issue (but taking no account of any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), the authorised share capital of the Company will be HK\$10,000,000 divided into 1,000,000,000 Shares and the issued share capital of the Company will be HK\$5,150,000 divided into 515,000,000 Shares, fully paid or credited as fully paid, with 485,000,000 Shares remaining unissued.

The Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Changes in share capital of the subsidiaries of the Company

The Company's subsidiaries are listed in the accountants' report, the text of which is set out in Appendix I to this prospectus.

- (a) Eastern Bright was incorporated in Hong Kong on 3 March 2010. As at the date of its incorporation, Eastern Bright has an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Cartech Limited, being the subscriber of Eastern Bright. On 2 September 2010, the one subscriber share of Eastern Bright was transferred to Mr. Wong Ting Wah, who held the said share as a trustee for and on behalf of Wisdom Come Medical. On 26 April 2012, Mr. Wong Ting Wah transferred the one share of Eastern Bright registered in his name back to Wisdom Come Medical.
- (b) Kiwi Lab International was incorporated in Hong Kong on 1 April 2010. As at the date of its incorporation, Kiwi Lab International has an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Cartech Limited, being the subscriber of Kiwi Lab International. On 17 June 2010, the one subscriber share of Kiwi Lab International was transferred to Able Island.
- (c) Sunny Regent was incorporated in Hong Kong on 22 April 2010. As at the date of its incorporation, Sunny Regent has an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Cartech Limited, being the subscriber of Sunny Regent. On 2 September 2010, the one subscriber share of Sunny Regent was transferred to Ms. Fong Wai Man Candy, who held the said share as a trustee for and on behalf of Wisdom Come Medical. On 26 April 2012, Ms. Fong Wai Man Candy transferred the one share of Sunny Regent registered in her name back to Wisdom Come Medical.
- (d) Super Pioneer was incorporated in Hong Kong on 26 April 2011. As at the date of its incorporation, Super Pioneer has an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid

to Cartech Limited, being the subscriber of Super Pioneer. On 27 June 2011, the one subscriber share of Super Pioneer was transferred to Mr. Wong Ching Tat Leslie, who held the said share as a trustee for and on behalf of Wisdom Come Medical. On 26 April 2012, Mr. Wong Ching Tat Leslie transferred the one share of Super Pioneer registered in his name back to Wisdom Come Medical.

- (e) Health Proof International was incorporated in Hong Kong on 7 June 2011. As at the date of its incorporation, Health Proof International has an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Able Island.
- (f) Power Regal was incorporated in Hong Kong on 6 July 2011. As at the date of its incorporation, Power Regal has an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Cartech Limited, being the subscriber of Power Regal. On 25 November 2011, the one subscriber share of Power Regal was transferred to Mr. Chan. On 28 February 2012, Mr. Chan transferred the one share of Power Regal in his name to Rich Sunny.
- (g) Fortunate Time was incorporated in BVI on 25 October 2011. As at the date of its incorporation, Fortunate Time is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 5 December 2011, one share of Fortunate Time was allotted and issued fully paid to Wisdom Come Medical as subscriber.
- (h) Apex Process was incorporated in BVI on 11 November 2011. As at the date of its incorporation, Apex Process is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 5 December 2011, one share of Apex Process was allotted and issued fully paid to Wisdom Come Medical as subscriber.
- (i) Apex Bloom was incorporated in BVI on 16 November 2011. As at the date of its incorporation, Apex Bloom is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 5 December 2011, one share of Apex Bloom was allotted and issued fully paid to Wisdom Come Medical as subscriber.
- (j) Venture Tycoon was incorporated in Hong Kong on 20 December 2011. As at the date of its incorporation, Venture Tycoon has an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Blear Services Limited as subscriber. On 9 May 2012, the one subscriber share of Venture Tycoon was transferred to Apex Prospection.
- (k) Apex Prospection was incorporated in BVI on 3 April 2012. As at the date of its incorporation, Apex Prospection is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 9 May 2012, one share of Apex Prospection was allotted and issued fully paid to Wisdom Come Medical as subscriber.
- (l) Wisdom Come Promotion was incorporated in Hong Kong on 13 August 2012. As at the date of its incorporation, Wisdom Come Promotion has an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each, of which one share was

allotted and issued fully paid to Blear Services Limited as subscriber. On 6 September 2012, the one subscriber share of Wisdom Come Promotion was transferred to Wisdom Come Medical.

- (m) Floral Princess was incorporated in BVI on 6 September 2012. As at the date of its incorporation, Floral Princess is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 29 October 2012, one share of Floral Princess was allotted and issued fully paid to Wisdom Come Medical as subscriber.
- (n) Honten was incorporated in Hong Kong on 8 October 2012. As at the date of its incorporation, Honten has an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Cartech Limited as subscriber. On 7 November 2012, the one subscriber share of Honten was transferred to Floral Princess.
- (o) CM Legend was incorporated in Hong Kong on 17 September 2013. As at the date of its incorporation, CM Legend has an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Wisdom Come Medical as subscriber.
- (p) Wisdom Healthcare was incorporated in Taiwan on 19 March 2013. As at the date of its incorporation, Wisdom Healthcare has a capital contribution of NT\$10,000,000. Since its incorporation, all the capital contribution of Wisdom Healthcare is owned by Honten.

Save as disclosed in this paragraph and the paragraph headed “Reorganisation” in this Appendix, there has been no other change to the share capital of any of the subsidiaries of the Company within the two years immediately prior to the date of this prospectus.

4. Further information about the Company’s subsidiaries

(a) The Hong Kong subsidiaries

Apex Consultant

Apex Consultant was incorporated in Hong Kong on 26 March 2003 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to each of Smart Registrations Limited and Smart Secretarial Limited as subscribers. On 30 September 2003, Apex Consultant allotted 9,998 fully paid shares of HK\$1.00 each to Able Island. On 3 October 2003, Smart Registrations Limited transferred one share in Apex Consultant to Ms. Li Kin, an ex-director of certain subsidiaries of the Group, whereas Smart Secretarial Limited transferred one share in Apex Consultant to Able Island at a total consideration of HK\$1.00, respectively.

On 7 November 2005, Ms. Li transferred the one share in Apex Consultant to Able Island at a total consideration of HK\$1.00. On the same day, Apex Consultant became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the entire issued share capital of Apex Consultant owned by Able Island at a total consideration of HK\$10,000.00.

Wisdom Health Products

Wisdom Health Products was incorporated in Hong Kong on 5 January 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to each of Apex Consultant and Ms. Li Kin, an ex-director of certain subsidiaries of the Group, as subscribers. On 28 April 2004, Ms. Li transferred one share in Wisdom Health Products to Apex Consultant at a total consideration of HK\$1.00. On the same day, Apex Consultant transferred the entire issued share capital of Wisdom Health Products to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, at a total consideration of HK\$1.00. Ms. Cheng was a nominee of Mr. Chan pursuant to a declaration of trust dated 28 April 2004.

On 12 November 2005, Wisdom Health Products became a wholly-owned subsidiary of Wisdom Come Medical when Ms. Cheng transferred the two shares of Wisdom Health Products to Wisdom Come Medical at a total consideration of HK\$2.00.

Creation Chance

Creation Chance was incorporated in Hong Kong on 5 March 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, the entire issued share capital of Creation Chance was wholly owned (represented by one share of Creation Chance) by Cartech Limited as subscriber. On 25 June 2004, Cartech Limited transferred one share in Creation Chance to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, at a total consideration of HK\$1.00. On 18 November 2005, Creation Chance became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the one share of Creation Chance owned by Ms. Cheng at a total consideration of HK\$1.00.

HK Ever Spring

HK Ever Spring was incorporated in Hong Kong on 12 May 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, the entire issued share capital of HK Ever Spring was wholly owned (represented by one share of HK Ever Spring) by Medalist. On 7 July 2004, Medalist transferred one share in HK Ever Spring to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, at a total consideration of HK\$1.00. On 7 November 2005, HK Ever Spring became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the one share of HK Ever Spring owned by Ms. Cheng at a total consideration of HK\$1.00.

Royal Medic Holdings

Royal Medic Holdings was incorporated in Hong Kong on 11 June 2004 with an authorized share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, the entire issued share capital of Royal Medic Holdings was wholly owned (represented by one share of Royal Medic Holdings) by Cartech Limited. On 16 June 2004, Cartech Limited transferred one share in Royal Medic Holdings to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, at a total consideration of HK\$1.00.

On 1 November 2005, Royal Medic Holdings allotted 95 fully paid shares of HK\$1.00 each to Wisdom Come Medical and four fully paid shares of HK\$1.00 each to Able Base Profits Limited, an Independent Third Party, respectively. On 7 November 2005, Ms. Cheng transferred one share in Royal Medic Holdings to Wisdom Come Medical at a total consideration of HK\$1.00. On 16 March 2007, Royal Medic Holdings became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the four shares of Royal Medic Holdings from Able Base Profits Limited at a total consideration of HK\$330,000.00.

Wisdom Come Medical

Wisdom Come Medical was incorporated in Hong Kong on 20 August 2004 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Mr. Lee Chi Hang Sidney, an ex-director of Wisdom Come Medical and legal adviser of the Group, as subscriber. Mr. Lee was a nominee of Able Island pursuant to a declaration of trust dated 12 August 2004. On 1 November 2005, Wisdom Come Medical allotted 95 fully paid shares of HK\$1.00 each to Able Island and four fully paid shares of HK\$1.00 each to Mr. Lee respectively. Mr. Lee was a nominee of Able Island pursuant to a declaration of trust dated 1 November 2005. On 10 July 2007, Mr. Lee transferred the five shares of Wisdom Come Medical registered in his name back to Able Island and subsequently, Able Island became the registered holder of the entire issued share capital of Wisdom Come Medical.

Royal Medic CMC

Royal Medic CMC was incorporated in Hong Kong on 2 March 2006 with an authorized share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 18 April 2006, Cartech Limited transferred one share in Royal Medic CMC to Wisdom Come Medical at a total consideration of HK\$1.00. On 27 April 2006, Royal Medic CMC allotted two fully paid shares of HK\$1.00 each to Mr. Lee Kwai Yau, a nominee of Wisdom Come Medical pursuant to a declaration of trust dated 27 April 2006 and an Independent Third Party. On 28 November 2006, Mr. Lee transferred the two shares of Royal Medic CMC registered in his name back to Wisdom Come Medical and subsequently, Wisdom Come Medical became the registered holder of the entire issued share capital of Royal Medic CMC.

M2C

M2C was incorporated in Hong Kong on 31 March 2006 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Mr. Lee Chi Hang Sidney, an ex-director of Wisdom Come Medical and legal adviser of the Group, as subscriber. On 19 May 2006, M2C became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the one share of M2C owned by Mr. Lee at a consideration of HK\$1.00.

Rich Sunny

Rich Sunny was incorporated in Hong Kong on 3 May 2006 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited. On 30 June 2006, Rich Sunny became a wholly-owned subsidiary of Wisdom Health Products when Wisdom Health Products acquired the one share of Rich Sunny held by Cartech Limited at a total consideration of HK\$1.00.

Eastern Bright

Eastern Bright was incorporated in Hong Kong on 3 March 2010 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 2 September 2010, one share of Eastern Bright was transferred to Mr. Wong Ting Wah, an ex-employee of the Group, at a total consideration of HK\$1.00. Mr. Wong Ting Wah was a nominee of Wisdom Come Medical pursuant to a declaration of trust dated 2 September 2010. On 26 April 2012, Mr. Wong Ting Wah transferred the one share of Eastern Bright registered in his name back to Wisdom Come Medical and subsequently, Wisdom Come Medical became the registered holder of the entire issued share capital of Eastern Bright.

Kiwi Lab International

Kiwi Lab International was incorporated in Hong Kong on 1 April 2010 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 17 June 2010, Kiwi Lab International became a wholly-owned subsidiary of Able Island when Able Island acquired the one share of Kiwi Lab International owned by Cartech Limited at a consideration of HK\$1.00.

Sunny Regent

Sunny Regent was incorporated in Hong Kong on 22 April 2010 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 2 September 2010, one share of Sunny Regent was transferred to Ms. Fong Wai Man Candy, an employee of the Group, at a total consideration of HK\$1.00. Ms. Fong Wai

Man Candy was a nominee of Wisdom Come Medical pursuant to a declaration of trust dated 2 September 2010. On 26 April 2012, Ms. Fong Wai Man Candy transferred the one share of Sunny Regent registered in her name back to Wisdom Come Medical and subsequently, Wisdom Come Medical became the registered holder of the entire issued share capital of Sunny Regent.

Super Pioneer

Super Pioneer was incorporated in Hong Kong on 26 April 2011 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 27 June 2011, one share of Super Pioneer was transferred to Mr. Wong Ching Tat Leslie, an ex-employee of the Group, at a total consideration of HK\$1.00. Mr. Wong Ching Tat Leslie was a nominee of Wisdom Come Medical pursuant to a declaration of trust dated 27 June 2011. On 26 April 2012, Mr. Wong Ching Tat Leslie transferred the one share of Super Pioneer registered in his name to Wisdom Come Medical and subsequently, Wisdom Come Medical became the registered holder of the entire issued share capital of Super Pioneer.

Health Proof International

Health Proof International was incorporated in Hong Kong on 7 June 2011 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Able Island as subscriber.

Power Regal

Power Regal was incorporated in Hong Kong on 6 July 2011 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 25 November 2011, one share of Power Regal was transferred to Mr. Chan at a consideration of HK\$1.00. On 28 February 2012, Power Regal became a wholly-owned subsidiary of Rich Sunny when Rich Sunny acquired the one share of Power Regal owned by Mr. Chan at a consideration of HK\$1.00.

Venture Tycoon

Venture Tycoon was incorporated in Hong Kong on 20 December 2011 with an authorized share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Blear Services Limited as subscriber. On 9 May 2012, one share of Venture Tycoon was transferred to Apex Prospection at a total consideration of HK\$1.00.

Wisdom Come Promotion

Wisdom Come Promotion was incorporated in Hong Kong on 13 August 2012 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Blear Services Limited as subscriber. On 6 September 2012, one share of Wisdom Come Promotion was transferred to Wisdom Come Medical at a total consideration of HK\$1.00.

Honten

Honten was incorporated in Hong Kong on 8 October 2012 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. On the date of incorporation, one share was issued to Cartech Limited as subscriber. On 7 November 2012, one share of Honten was transferred to Floral Princess at a total consideration of HK\$1.00.

CM Legend

CM Legend was incorporated in Hong Kong on 17 September 2013 with an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. As at the date of incorporation, CM Legend has an authorised share capital of HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued fully paid to Wisdom Come Medical as subscriber.

(b) *BVI subsidiaries*

Medalist

Medalist was incorporated in BVI on 18 October 2002 with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and one share was issued to Wisdom Come Consultant Company Limited on 20 January 2003. On 25 September 2003, Medalist became a wholly-owned subsidiary of Able Island when Able Island acquired the one share of Medalist owned by Wisdom Come Consultant Company Limited at a total consideration of US\$1.00.

Herballand Bio-Chemical

Herballand Bio-Chemical was incorporated on 19 October 2004 in BVI with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and one share was issued to Ms. Cheng Ming Wai Helen, an ex-director of certain subsidiaries of the Group, on the same day. On 1 November 2005, Herballand Bio-Chemical became a wholly-owned subsidiary of Wisdom Come Medical when Wisdom Come Medical acquired the one share of Herballand Bio-Chemical owned by Ms. Cheng at a total consideration of US\$1.00.

Fortunate Time

Fortunate Time was incorporated on 25 October 2011 in BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 5 December 2011, one share of Fortunate Time was issued to Wisdom Come Medical as subscriber.

Apex Process

Apex Process was incorporated on 11 November 2011 in BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 5 December 2011, one share of Apex Process was issued to Wisdom Come Medical as subscriber.

Apex Bloom

Apex Bloom was incorporated on 16 November 2011 in BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 5 December 2011, one share of Apex Bloom was issued to Wisdom Come Medical as subscriber.

Apex Prospection

Apex Prospection was incorporated on 3 April 2012 in BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 9 May 2012, one share of Apex Prospection was issued to Wisdom Come Medical as subscriber.

Floral Princess

Floral Princess was incorporated on 6 September 2012 in BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 29 October 2012, one share of Floral Princess was issued to Wisdom Come Medical as subscriber.

(c) *The Taiwan subsidiary*

Wisdom Healthcare

On 19 March 2013, Wisdom Healthcare was incorporated in Taiwan with a registered capital of NT\$10,000,000. The entire capital contribution of Wisdom Healthcare is owned by Honten.

5. Written resolutions of the sole Shareholder

Pursuant to the written resolutions of the sole Shareholder passed on 24 September 2013:

- (a) the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of a further 962,000,000 Shares ranking *pari passu* with the existing Shares in all respects;

- (b) conditional upon the conditions stated in the paragraph headed “Conditions of the Placing” under the section headed “Structure and Conditions of the Placing” in this prospectus being fulfilled or waived (as the case may be):
- (i) the Placing pursuant to the terms as set out in this prospectus was approved and the Directors or any committee of the Board were authorised to allot and issue such Shares pursuant to the Placing;
 - (ii) the Share Option Scheme was approved and adopted with such additions, amendments or modifications thereto as may be approved by the Directors or any committee of the Board and the Directors or any committee of the Board were authorised to implement the Share Option Scheme, to grant options thereunder and to allot, issue and deal with the Shares thereunder 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 the Company being credited as a result of the Placing, the Directors were authorised to capitalize a maximum amount of HK\$3,844,000 standing to the credit of the share premium account of the Company and to apply such amount in paying up in full at par 384,400,000 Shares for allotment and issue to the holders of issued Shares whose names appear on the register of members of the Company at close of business on 24 September 2013 (or as it may direct), and the Directors were authorised to give effect to such capitalization and distribution;
 - (iv) a general unconditional mandate was given to the Directors to allot, issue and deal with unissued Shares (otherwise than (i) by way of rights issue; (ii) scrip dividend or similar arrangement in accordance with the Articles; (iii) an issue of Shares pursuant to the exercise of options granted under the Share Option Scheme; (iv) the Placing; or (v) the Capitalisation Issue) with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue immediately upon completion of the Placing and the Capitalisation Issue. Such mandate will expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first;

- (v) a general unconditional mandate was given to the Directors authorising the purchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the GEM Listing Rules (or of such other stock exchange), of Shares not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately upon completion of the Placing (excluding Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first;
- (vi) the general unconditional mandate as mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase shares referred to in sub-paragraph (v) above; and
- (vii) the Articles, the terms of which are summarised in Appendix IV to this prospectus, were approved and adopted.

6. Reorganisation

The Group has undergone a reorganisation in preparation for the Listing which involved the following steps:

- (a) The Company was incorporated in the Cayman Islands on 5 December 2011. As at the date of its incorporation, the Company has an authorised share capital of HK\$380,000.00 divided into 3,800,000 shares of HK\$0.10 each, one Share of which was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, being the subscriber to the Company. On 5 December 2011, the one Share held by Codan Trust Company (Cayman) Limited was transferred to Able Island;
- (b) Noble State was incorporated on 16 November 2011 under the laws of BVI and is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. On 5 December 2011, one share of Noble State was allotted and issued fully paid up for cash at par to Able Island;
- (c) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Mr. Chan as purchaser, Wisdom Come Medical transferred to Mr. Chan one share of Xaxon, representing the entire issued share capital of Xaxon, at a consideration of HK\$1.00 on 10 September 2013;

- (d) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Wealth International, representing the entire issued share capital of Wealth International, at a consideration of HK\$1.00 on 10 September 2013;
- (e) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Men 100, representing the entire issued share capital of Men 100, at a consideration of HK\$1.00 on 10 September 2013;
- (f) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Royal Medic Management, representing the entire issued share capital of Royal Medic Management at a consideration of HK\$1.00 on 10 September 2013;
- (g) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Wise Medic, representing the entire issued share capital of Wise Medic at a consideration of HK\$1.00 on 11 September 2013;
- (h) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, Wisdom Come Medical transferred to Xaxon one share of Sky China, representing the entire issued share capital of Sky China at a consideration of HK\$1.00 on 10 September 2013;
- (i) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Apex Bloom as purchaser and Able Island as vendor, Apex Bloom acquired from Able Island one share of Health Proof International, representing the entire issued share capital of Health Proof International, at a consideration of HK\$1.00 on 11 September 2013;
- (j) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Apex Process as purchaser and Able Island as vendor, Apex Process acquired from Able Island one share of Kiwi Lab International, representing the entire issued share capital of Kiwi Lab International at a consideration of HK\$1.00 on 11 September 2013;
- (k) Pursuant to a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as purchaser and Able Island as vendor, Wisdom Come Medical acquired from Able Island one share of Medalist, representing the entire issued share capital of Medalist, at a consideration of HK\$1.00 on 10 September 2013, which was fully satisfied by Wisdom Come Medical allotting and issuing one share of HK\$1.00 credited as fully paid up in the capital of Wisdom Come Medical to Able Island on 10 September 2013;

- (l) On 11 September 2013, Wisdom Come Medical transferred to Fortunate Time (i) the one ordinary share of Sunny Regent, being the entire issued share capital in Sunny Regent, at a consideration of HK\$1.00; (ii) the one ordinary share of Eastern Bright, being the entire issued share capital in Eastern Bright, at a consideration of HK\$1.00; and (iii) the one ordinary share of Super Pioneer, being the entire issued share capital in Super Pioneer, at a consideration of HK\$1.00;
- (m) Pursuant to a sale and purchase agreement dated 12 September 2013 entered into between Noble State as purchaser and Able Island as vendor, Noble State acquired from Able Island 101 shares of Wisdom Come Medical, representing the entire issued share capital of Wisdom Come Medical, at a consideration of HK\$38,551,000 on 12 September 2013, which was fully satisfied by Noble State allotting and issuing ten shares of US\$1.00 each credited as fully paid up in the capital of Noble State to Able Island;
- (n) Pursuant to the sole shareholder resolutions of the Company dated 16 September 2013, the share capital of the Company was subdivided in such manner that every existing share of HK\$0.1 was sub-divided into ten shares of HK\$0.01 each so that the authorised share capital of the Company is HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each; and
- (o) Pursuant to a sale and purchase agreement dated 23 September 2013 entered into between the Company as purchaser and Able Island as vendor, the Company acquired from Able Island 11 shares of Noble State, representing the entire issued share capital of Noble State, at a consideration of HK\$38,551,000 on 23 September 2013, which was fully satisfied by (A) the Company allotting and issuing 999,990 Shares credited as fully paid up to Able Island; and (B) the Company crediting as fully paid at par the ten nil paid Shares held by Able Island.

7. Repurchase by the Company of its own securities

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities. The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase in cash their securities on GEM subject to certain restrictions, a summary of which is set out below:

(a) Shareholders' approval

All proposed repurchases of securities, which must be fully paid up in the case of shares, on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by the sole Shareholder on 24 September 2013, a general unconditional mandate (the "Repurchase Mandate") was granted to the Directors authorising them to exercise all powers for and on behalf of the Company to repurchase its Shares on GEM, or on any other approved stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following completion of the Capitalisation Issue and the Placing (excluding Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held or when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest.

(b) Source of funds

Any repurchase by the Company may only be funded out of funds legally available for such purpose in accordance with the Memorandum and the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. The Company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Islands law, any repurchase by the Company may be made out of profit of the Company, out of the share premium account of the Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles 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 either or both of the profit of the Company or the share premium account of the Company or, if authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

(c) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 515,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Placing (but taking no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the Directors would be authorised under the Repurchase Mandate to repurchase up to 51,500,000 Shares.

The GEM Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(d) Dealing restrictions

The Company may repurchase up to 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following completion of the Capitalisation Issue and the Placing (excluding Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme).

The Company shall not repurchase the Shares on GEM if that repurchase would result in the number of the Shares which are in the hands of the public falling below the minimum percentage required by the Stock Exchange. The Company may not make a new issue of Shares or announce a proposed new issue of Shares for a period of 30 days after any repurchase of the Shares without the prior approval of the Stock Exchange. The Company is also prohibited from repurchasing the Shares on GEM at any time after inside information has come to its knowledge until such time as the inside information is made publicly available.

The Company shall procure that any broker appointed by the Company to effect the repurchase shall disclose to the Stock Exchange such information with respect to the repurchase made on behalf of the Company as the Stock Exchange may request.

(e) Connected persons

The GEM Listing Rules prohibit the Company from knowingly repurchasing the Shares on the Stock Exchange from a “connected person”, which includes a Director, chief executive or substantial Shareholder or any of the subsidiaries of the Company or an associate of any of them and a connected person shall not knowingly sell Shares to the Company.

(f) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from Shareholders to enable the Company 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 assets value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and the Shareholders.

(g) Funding of repurchases

In repurchasing its Shares, the Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles, the applicable laws of Cayman Islands and the GEM Listing Rules.

On the basis of the Company's current financial position as disclosed in this prospectus and taking into account the current working capital position of the Company, the Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse effect on the working capital and/or gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of the Company which, in the opinion of the Directors, are from time to time appropriate for the Company.

(h) General

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their associates, has any present intention to sell any Shares to the Company if the Repurchase Mandate is exercised.

The 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 GEM Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert could as a result of increase of its or their interest, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the Listing pursuant to the Repurchase Mandate.

No connected person has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a deed of assignment dated 28 March 2012 entered into between Able Island as assignor and Medalist as assignee, pursuant to which Able Island assigned to Medalist all rights and benefits under a trademark namely “御藥堂” at a consideration of HK\$1.00;
- (b) an instrument of transfer dated 26 April 2012 entered into between Mr. Wong Ting Wah as transferor and Wisdom Come Medical as transferee, pursuant to which Mr. Wong Ting Wah transferred one share of Eastern Bright held by Mr. Wong as trustee to Wisdom Come Medical as beneficiary;
- (c) an instrument of transfer dated 26 April 2012 entered into between Ms. Fong Wai Man Candy as transferor and Wisdom Come Medical as transferee, pursuant to which Ms. Fong Wai Man Candy transferred one share of Sunny Regent held by Ms. Fong as trustee to Wisdom Come Medical as beneficiary;
- (d) an instrument of transfer dated 26 April 2012 entered into between Mr. Wong Ching Tat Leslie as transferor and Wisdom Come Medical as transferee, pursuant to which Mr. Wong Ching Tat Leslie transferred one share of Super Pioneer held by Mr. Wong as trustee to Wisdom Come Medical as beneficiary;
- (e) a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Mr. Chan as purchaser, pursuant to which Wisdom Come Medical agreed to sell and Mr. Chan agreed to purchase one share of Xaxon, representing the entire issued share capital of Xaxon, at a consideration of HK\$1.00;
- (f) a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, pursuant to which Wisdom Come Medical agreed to sell and Xaxon agreed to purchase one share of Wealth International, representing the entire issued share capital of Wealth International, at a consideration of HK\$1.00;
- (g) a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, pursuant to which Wisdom Come Medical agreed to sell and Xaxon agreed to purchase one share of Men 100, representing the entire issued share capital of Men 100, at a consideration of HK\$1.00;
- (h) a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, pursuant to which Wisdom Come Medical agreed to sell and Xaxon agreed to purchase one share of Royal Medic Management, representing the entire issued share capital of Royal Medic Management, at a consideration of HK\$1.00;




- (i) a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, pursuant to which Wisdom Come Medical agreed to sell and Xaxon agreed to purchase one share of Wise Medic, representing the entire issued share capital of Wise Medic, at a consideration of HK\$1.00;
- (j) a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as vendor and Xaxon as purchaser, pursuant to which Wisdom Come Medical agreed to sell and Xaxon agreed to purchase one share of Sky China, representing the entire issued share capital of Sky China, at a consideration of HK\$1.00;
- (k) a sale and purchase agreement dated 10 September 2013 entered into between Apex Bloom as purchaser and Able Island as vendor, pursuant to which Apex Bloom agreed to purchase and Able Island agreed to sell one share of Health Proof International, representing the entire issued share capital of Health Proof International, at a consideration of HK\$1.00;
- (l) a sale and purchase agreement dated 10 September 2013 entered into between Apex Process as purchaser and Able Island as vendor, pursuant to which Apex Process agreed to purchase and Able Island agreed to sell one share of Kiwi Lab International, representing the entire issued share capital of Kiwi Lab International, at a consideration of HK\$1.00;
- (m) a sale and purchase agreement dated 10 September 2013 entered into between Wisdom Come Medical as purchaser and Able Island as vendor, pursuant to which Wisdom Come Medical agreed to purchase and Able Island agreed to sell one share of Medalist, representing the entire issued share capital of Medalist, at a consideration of HK\$1.00, which was fully satisfied by Wisdom Come Medical allotting and issuing one share of HK\$1.00 credited as fully paid up in the capital of Wisdom Come Medical to Able Island;
- (n) an instrument of transfer dated 10 September 2013 and bought and sold notes dated 10 September 2013 entered into between Wisdom Come Medical as transferor and Fortunate Time as transferee, pursuant to which Wisdom Come Medical transferred to Fortunate Time one share of Sunny Regent at a consideration of HK\$1.00;
- (o) an instrument of transfer dated 10 September 2013 and bought and sold notes dated 10 September 2013 entered into between Wisdom Come Medical as transferor and Fortunate Time as transferee, pursuant to which Wisdom Come Medical transferred to Fortunate Time one share of Eastern Bright at a consideration of HK\$1.00;
- (p) an instrument of transfer dated 10 September 2013 and bought and sold notes dated 10 September 2013 entered into between Wisdom Come Medical as transferor and Fortunate Time as transferee, pursuant to which Wisdom Come Medical transferred to Fortunate Time one share of Super Pioneer at a consideration of HK\$1.00;

- (q) a sale and purchase agreement dated 12 September 2013 entered into between Noble State as purchaser and Able Island as vendor, pursuant to which Noble State agreed to purchase and Able Island agreed to sell 101 shares of Wisdom Come Medical, representing the entire issued share capital of Wisdom Come Medical, at a consideration of HK\$38,551,000, which was fully satisfied by Noble State allotting and issuing ten shares of US\$1.00 each credited as fully paid up in the capital of Noble State to Able Island;
- (r) a sale and purchase agreement dated 23 September 2013 entered into between the Company as purchaser and Able Island as vendor, pursuant to which the Company agreed to purchase and Able Island agreed to sell 11 shares of Noble State, representing the entire issued share capital of Noble State, at a consideration of HK\$38,551,000, which was fully satisfied by (A) the Company allotting and issuing 999,990 Shares credited as fully paid up to Able Island; and (B) the Company crediting as fully paid at par the ten nil paid Shares held by Able Island;
- (s) a deed of non-competition dated 24 September 2013 executed by Mr. Chan and Able Island in favour of the Company, details of which are set out in the paragraph headed “Non-competition Undertakings” under the section headed “Controlling Shareholders and Substantial Shareholders” in this prospectus;
- (t) a deed of indemnity dated 24 September 2013 executed by Able Island, Mr. Chan and Company containing indemnities referred to in the sub-paragraph headed “Tax and other indemnities” under the paragraph headed “Other information” of this Appendix; and
- (u) the Underwriting Agreement.

2. Intellectual property rights of the group

(a) Trademarks

- (i) As at the Latest Practicable Date, the Group had registered the following trademarks in Hong Kong:

Trade Mark	Registration Number	Registered Owner	Class	Date of Registration	Duration of Validity
	300258372	Medalist	5 (Note (1))	29 July 2004	28 July 2014
	300339129	Medalist	5 (Note (2))	17 December 2004	16 December 2014
	300721971	Medalist	5 (Note (2))	15 September 2006	14 September 2016

Trade Mark	Registration Number	Registered Owner	Class	Date of Registration	Duration of Validity
	300339147	Medalist	5 (Note (2))	17 December 2004	16 December 2014
	300339101	Medalist	5 (Note (2))	17 December 2004	16 December 2014
	301211309	Medalist	5, 44 (Note (3))	29 September 2008	28 September 2018
	302243385	Medalist	5 (Note (4))	7 May 2012	6 May 2022
	302079225	Wisdom Come Medical	5, 10, 29, 30, 31, 35, 43, 44 (Note (5))	8 November 2011	7 November 2021
	302359882	Medalist	5, 44 (Note (6))	29 August 2012	28 August 2022
	302365605	Medalist	5, 44 (Note (7))	3 September 2012	2 September 2022
	302375938	Medalist	5, 30, 32 (Note (8))	12 September 2012	11 September 2022
	302375910	Medalist	5, 30, 32 (Note (9))	12 September 2012	11 September 2022
	302359873	Kiwi Lab International	5, 30, 32 (Note (10))	29 August 2012	28 August 2022
	302424014	Medalist	44 (Note (11))	2 November 2012	1 November 2022

Notes:

- (1) The specific products and/or services under international class 5 in respect of which the trademark was registered are pharmaceutical, veterinary and sanitary preparations; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax, disinfectants; preparations for destroying vermin; fungicides, herbicides.
- (2) The specific products and/or services under international class 5 in respect of which the trademark was registered are pharmaceutical, veterinary and sanitary preparations; dietetic substances adapted for medical use.
- (3) The specific products and/or services under international classes 5 and 44 in respect of which the trademark was registered are pharmaceutical, veterinary and sanitary preparations, dietetic substances adapted for medical use and medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services respectively.

- (4) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
- (5) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

The specific products and/or service under international class 10 in respect of which the trademark is registered are surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials.

The specific products and/or service under international class 29 in respect of which the trademark is registered are meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs, milk and milk products; edible oils and fats.

The specific products and/or service under international class 30 in respect of which the trademark is registered are coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee; flour and preparations made from cereals, bread, pastry and confectionery, ices; honey, treacle; yeast, baking-powder; salt, mustard; vinegar, sauces (condiments); spices; ice.

The specific products and/or service under international class 31 in respect of which the trademark is registered are agricultural, horticultural and forestry products and grains not included in other classes; live animals; fresh fruits and vegetables; seeds, natural plants and flowers; foodstuffs for animals; malt.

The specific products and/or service under international class 35 in respect of which the trademark is registered are advertising; business management; business administration; office functions.

The specific products and/or service under international class 43 in respect of which the trademark is registered are services for providing food and drink; temporary accommodation.

The specific products and/or service under international class 44 in respect of which the trademark is registered are medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

- (6) The specific products and/or services under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

The specific products and/or services under international class 44 in respect of which the trademark is registered are medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

- (7) The specific products and/or services under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for

babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

The specific products and/or services under international class 44 in respect of which the trademark is registered are medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

- (8) The specific products and/or services under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

The specific products and/or services under international class 30 in respect of which the trademark is registered are coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastry and confectionery; ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices; ice.

The specific products and/or services under international class 32 in respect of which the trademark is registered are beers; mineral and aerated waters and other non-alcoholic beverages; fruit beverages and fruit juices; syrups and other preparations for making beverages.

- (9) The specific products and/or services under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

The specific products and/or services under international class 30 in respect of which the trademark is registered are coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastry and confectionery; ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices; ice.

The specific products and/or services under international class 32 in respect of which the trademark is registered are beers; mineral and aerated waters and other non-alcoholic beverages; fruit beverages and fruit juices; syrups and other preparations for making beverages.









- (10) The specific products and/or services under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.










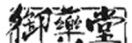
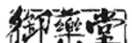
The specific products and/or services under international class 30 in respect of which the trademark is registered are coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastry and confectionery; ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices; ice.

The specific products and/or services under international class 32 in respect of which the trademark is registered are beers; mineral and aerated waters and other non-alcoholic beverages; fruit beverages and fruit juices; syrups and other preparations for making beverages.

(11) The specific products and/or service under international class 44 in respect of which the trademark is registered are medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

(ii) As at the Latest Practicable Date, the Group had registered the following trade marks in the PRC and other overseas countries:





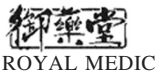
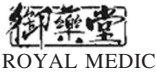
Trade Mark	Country of Registration	Registration Number	Registered Owner	Class	Date of Registration	Duration of Validity
	PRC	4512473	Medalist	5 (Note (1))	21 May 2008	20 May 2018
	PRC	4523760	Medalist	5 (Note (2))	28 June 2008	27 June 2018
	PRC	4523761	Medalist	5 (Note (3))	7 October 2008	6 October 2018
	PRC	8892747	Medalist	3 (Note (4))	7 January 2012	6 January 2022
	PRC	8892745	Medalist	38 (Note (5))	14 December 2011	13 December 2021
	PRC	8892746	Medalist	16 (Note (6))	14 December 2011	13 December 2021
	PRC	8892749	Medalist	33 (Note (7))	14 December 2011	13 December 2021
	PRC	8892753	Medalist	10 (Note (8))	28 December 2011	27 December 2021

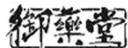
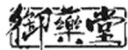



Trade Mark	Country of Registration	Registration Number	Registered Owner	Class	Date of Registration	Duration of Validity
	PRC	8892756	Medalist	2 (<i>Note (9)</i>)	14 December 2011	13 December 2021
	PRC	8892757	Medalist	1 (<i>Note (10)</i>)	14 December 2011	13 December 2021
	PRC	8892752	Medalist	30 (<i>Note (11)</i>)	7 February 2012	6 February 2022
	PRC	8892751	Medalist	31 (<i>Note (12)</i>)	14 May 2012	13 May 2022
	PRC	8892754	Medalist	29 (<i>Note (13)</i>)	14 May 2012	13 May 2022
	PRC	9267024	Kiwi Lab International	32 (<i>Note (14)</i>)	21 July 2012	20 July 2022
	PRC	9267026	Kiwi Lab International	30 (<i>Note (15)</i>)	21 July 2012	20 July 2022
	PRC	8948226	Eastern Bright	30 (<i>Note (16)</i>)	21 December 2011	20 December 2021
	PRC	8948224	Eastern Bright	43 (<i>Note (17)</i>)	7 May 2012	6 May 2022
 ROYAL MEDIC	Japan	5608223	Medalist	5 (<i>Note (18)</i>)	16 August 2013	16 August 2023
 ROYAL MEDIC	Singapore	T1300246Z	Medalist	5 (<i>Note (19)</i>)	4 January 2013	4 January 2023

Notes:

- (1) The specific products and/or services under international class 5 in respect of which the trademark was registered are pharmaceutical preparations; veterinarian preparations; nutritious foods adapted for medical purposes; sterilizer.
- (2) The specific products and/or services under international class 5 in respect of which the trademark was registered are pharmaceutical preparations; veterinarian preparations; nutritious foods adapted for medical purposes; infant food; plaster; medical dressing materials; dental fillings; dental molding wax; disinfectants; sterilizer.
- (3) The specific products and/or services under international class 5 in respect of which the trademark was registered are veterinarian preparations.
- (4) The specific products and/or services under international class 3 in respect of which the trademark was registered are detergent; leather creams; grinding paste; cosmetics for animals.
- (5) The specific products and/or services under international class 38 in respect of which the trademark was registered are television airing; television broadcasting; cable television broadcasting; messaging; telegraph service; telephone communication; computer-aided transmission of messages and images; electronic mail; database access service; voice mail service.
- (6) The specific products and/or services under international class 16 in respect of which the trademark was registered are pictorials; newspapers; cards; books; pictures; stationeries; photos; certificates; carton or paper box; coffee filter paper.
- (7) The specific products and/or services under international class 33 in respect of which the trademark was registered are fruit wine; distilleries; wine; mead; brandy; alcoholic beverages (except beer); alcoholic fruit drinks; alcoholic beverages containing fruits; rum; sparkling wine.
- (8) The specific products and/or services under international class 10 in respect of which the trademark was registered are feeding bottles.
- (9) The specific products and/or services under international class 2 in respect of which the trademark was registered are saffron dye; gold foil; butter (food colorant); colorants for drinks; colorants for food; caramel (food colorants); malt caramel (food colorants); colorants for liqueur; fire retardant paint; wood preservative paint.
- (10) The specific products and/or services under international class 1 in respect of which the trademark was registered are boron; raw salt; lactic acid; distilled water; fat breaker; chemical preparations for scientific purposes (non-medical and non-veterinarian); unprocessed plastics; food preservation chemicals; composite sweetener; saccharin; oil for food preservation.
- (11) The specific product under international class 30 in respect of which the trademark is registered is starch-containing edible oil dough.
- (12) The specific products and/or service under international class 31 in respect of which the trademark is registered are oat; non-processed cocoa beans; wheat; corn; barley; rye; sesame; non-processed beans; plant; fresh edible fungi.
- (13) The specific products and/or service under international class 29 in respect of which the trademark is registered are dried bird's nest; fruit-based snacks; fruit-and-veggie-based snacks; vegetable soup ingredients; soybean milk (substitute of milk); milk products; milk tea (mainly milk); yogurt ; edible olive oil; food protein.
- (14) The specific products under international class 32 in respect of which the trademark is registered is non-alcoholic juice.

- (15) The specific products and/or service under international class 30 in respect of which the trademark is registered are coffee drinks; tea substitute; non-medical nutrition fluid; non-medical nutrition cream; non-medical nutrition powder; non-medical nutrition capsule; vinegar.
- (16) The specific products and/or service under international class 30 in respect of which the trademark is registered are cocoa; coffee; coffee drinks; artificial coffee; tea; sugar; sugar; candies; cake; rice; starch-containing edible oil dough.
- (17) The specific products and/or service under international class 43 in respect of which the trademark is registered are catered banquet; cafe; buffet restaurant; restaurant; bistro; cafeteria; fast food shop; bar; teahouse; rental tourist rooms.
- (18) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical, veterinary and sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use; food for babies; dietary supplements for humans; dietary supplements for animals; medicated ointment, mustard plasters, plasters for medical purposes; disinfectants for hygiene purposes; fungicides.
- (19) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical preparations; veterinary preparations; sanitary preparations for medical purposes; dietetic food for medical purposes; dietetic substances for veterinary use; food for babies; dietary supplements for medical use; diet supplements for animals; nutritional supplements; health food supplements for persons with special dietary requirements; ointment for medical purposes; plasters (dressings); fungicides.
- (iii) As at the Latest Practicable Date, the Group had applied for registration 23 trademarks and the material trademarks applications in relation to the Group's business are set out below. The registration of these trademarks had not yet been granted:

Trade Mark	Country of Application	Application Number	Name of Applicant	Class	Application Date
	Australia	1569776	Medalist	5 (<i>Note (1)</i>)	19 July 2013
	Hong Kong	302353770	Medalist	5 (<i>Note (2)</i>)	23 August 2012
	Hong Kong	302424005	Medalist	1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 45 (<i>Note (3)</i>)	2 November 2012
	Hong Kong	302484928	Medalist	30, 31 (<i>Note (4)</i>)	3 January 2013
	Korea	40-2013-659	Medalist	5 (<i>Note (5)</i>)	4 January 2013
	Macau	N/72336	Eastern Bright	5 (<i>Note (6)</i>)	16 January 2013

Trade Mark	Country of Application	Application Number	Name of Applicant	Class	Application Date
 ROYAL MEDIC	Malaysia	2013000855	Eastern Bright	5 (Note (7))	15 January 2013
 ROYAL MEDIC	New Zealand	971164	Medalist	5 (Note (8))	3 January 2013
 Cs-4	PRC	11460011	Medalist	5 (Note (9))	7 September 2012
 Cs-4	PRC	11460012	Medalist	44 (Note (10))	7 September 2012
	PRC	11460013	Medalist	5 (Note (11))	7 September 2012

Notes:

- (1) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical preparations; veterinary preparations; sanitary preparations for medical purposes; dietetic substances for veterinary use; dietetic substances for medical use; dietetic foods adapted for medical purposes; food for babies; dietary supplements; ointments for pharmaceutical purposes; plasters (dressings); materials for dressings; material for stopping teeth; dental wax; disinfectants; preparations for destroying vermin; fungicides; herbicides.
- (2) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
- (3) The specific products and/or service under international class 1 in respect of which the trademark is registered are chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry.

The specific products and/or service under international class 2 in respect of which the trademark is registered are paints, varnishes, lacquers; preservatives against rust and against deterioration of wood; colorants; mordants; raw natural resins; metals in foil and powder form for painters, decorators, printers and artists.

The specific products and/or service under international class 3 in respect of which the trademark is registered are bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; soaps; perfumery, essential oils, cosmetics, hair lotions; dentifrices.

The specific products and/or service under international class 4 in respect of which the trademark is registered are industrial oils and greases; lubricants; dust absorbing, wetting and binding compositions; fuels (including motor spirit) and illuminants; candles and wicks for lighting.

The specific products and/or service under international class 6 in respect of which the trademark is registered are common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores.

The specific products and/or service under international class 7 in respect of which the trademark is registered are machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs; automatic vending machines.

The specific products and/or service under international class 8 in respect of which the trademark is registered are hand tools and implements (hand operated); cutlery; side arms; razors.

The specific products and/or service under international class 9 in respect of which the trademark is registered are scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus.

The specific products and/or service under international class 10 in respect of which the trademark is registered are surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials.

The specific products and/or service under international class 11 in respect of which the trademark is registered are apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.

The specific products and/or service under international class 12 in respect of which the trademark is registered are vehicles; apparatus for locomotion by land, air or water.

The specific products and/or service under international class 13 in respect of which the trademark is registered are firearms; ammunition and projectiles, explosives; fireworks.

The specific products and/or service under international class 14 in respect of which the trademark is registered are precious metals and their alloys and goods in precious metals or coated therewith, not included in other classes; jewellery, precious stones; horological and chronometric instruments.

The specific products and/or service under international class 15 in respect of which the trademark is registered are musical instruments.

The specific products and/or service under international class 16 in respect of which the trademark is registered are paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.

The specific products and/or service under international class 17 in respect of which the trademark is registered are rubber, gutta-percha, gum, asbestos, mica and goods made from these materials and not included in other classes; plastics in extruded form for use in manufacture; packing, stopping and insulating materials; flexible pipes, not of metal.

The specific products and/or service under international class 18 in respect of which the trademark is registered are leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas and parasols; walking sticks; whips, harness and saddlery.

The specific products and/or service under international class 19 in respect of which the trademark is registered are building materials (non-metallic); non-metallic rigid pipes for building; asphalt, pitch and bitumen; non-metallic transportable buildings; monuments, not of metal.

The specific products and/or service under international class 20 in respect of which the trademark is registered are furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.

The specific products and/or service under international class 21 in respect of which the trademark is registered are household or kitchen utensils and containers; combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steelwool; unworked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.

The specific products and/or service under international class 22 in respect of which the trademark is registered are ropes, string, nets, tents, awnings, tarpaulins, sails, sacks and bags (not included in other classes); padding and stuffing materials (except of rubber or plastics); raw fibrous textile materials.

The specific products and/or service under international class 23 in respect of which the trademark is registered are yarns and threads, for textile use.

The specific products and/or service under international class 24 in respect of which the trademark is registered are textiles and textile goods, not included in other classes; bed covers; table covers.

The specific products and/or service under international class 25 in respect of which the trademark is registered are clothing, footwear, headgear.

The specific products and/or service under international class 26 in respect of which the trademark is registered are lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers.

The specific products and/or service under international class 27 in respect of which the trademark is registered are carpets, rugs, mats and matting, linoleum and other materials for covering existing floors; wall hangings (non-textile).

The specific products and/or service under international class 28 in respect of which the trademark is registered are games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.

The specific products and/or service under international class 29 in respect of which the trademark is registered are meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs; milk and milk products; edible oils and fats.

The specific products and/or service under international class 30 in respect of which the trademark is registered are coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastry and confectionery; ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices; ice.

The specific products and/or service under international class 31 in respect of which the trademark is registered are grains and agricultural, horticultural and forestry products not included in other classes; live animals; fresh fruits and vegetables; seeds; natural plants and flowers; foodstuffs for animals; malt.

The specific products and/or service under international class 32 in respect of which the trademark is registered are beers; mineral and aerated waters and other non-alcoholic beverages; fruit beverages and fruit juices; syrups and other preparations for making beverages.

The specific products and/or service under international class 33 in respect of which the trademark is registered are alcoholic beverages (except beers).

The specific products and/or service under international class 34 in respect of which the trademark is registered are tobacco; smokers' articles; matches.

The specific products and/or service under international class 35 in respect of which the trademark is registered are advertising; business management; business administration; office functions.

The specific products and/or service under international class 36 in respect of which the trademark is registered are insurance; financial affairs; monetary affairs; real estate affairs.

The specific products and/or service under international class 37 in respect of which the trademark is registered are building construction; repair; installation services.

The specific products and/or service under international class 38 in respect of which the trademark is registered are telecommunications.

The specific products and/or service under international class 39 in respect of which the trademark is registered are transport; packaging and storage of goods; travel arrangement.

The specific products and/or service under international class 40 in respect of which the trademark is registered are treatment of materials.

The specific products and/or service under international class 41 in respect of which the trademark is registered are education; providing of training; entertainment; sporting and cultural activities.

The specific products and/or service under international class 42 in respect of which the trademark is registered are scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software.

The specific products and/or service under international class 43 in respect of which the trademark is registered are services for providing food and drink; temporary accommodation.

The specific products and/or service under international class 45 in respect of which the trademark is registered are legal services; security services for the protection of property and individuals; personal and social services rendered by others to meet the needs of individuals.

- (4) The specific products and/or service under international class 30 in respect of which the trademark is registered are coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastry and confectionery; ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices; ice.

The specific products and/or service under international class 31 in respect of which the trademark is registered are grains and agricultural, horticultural and forestry products not included in other classes; live animals; fresh fruits and vegetables; seeds; natural plants and flowers; foodstuffs for animals; malt.

- (5) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical preparations; veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical; dietetic

food and substances adapted for veterinary use; food for babies except lacteal flour for babies; dietary supplements for humans; dietary supplements for animals; dietary supplements for humans and animals consisting of animal extracts; dietary supplements for humans and animals consisting of plant, fruits, vegetable extracts; dietary supplements for humans and animals consisting of Chinese herbs; dietary supplements for humans and animals consisting of cordyceps essence; dietary supplements for humans and animals consisting of vitamins and minerals; medicated ointment, plasters for medical purposes; fungicides.

- (6) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical and veterinary use, food for babies; dietary supplement for human and animal; nutrition supplement; health food; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
- (7) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical preparations; veterinary preparations; sanitary preparations for medical purposes; dietetic food for medical purposes; dietetic substances for veterinary use; food for babies; dietary supplements for medical use; diet supplements for animals; nutritional supplements; health food supplements for persons with special dietary requirements; ointment for medical purposes; plasters (dressings); fungicides.
- (8) The specific products and/or service under international class 5 in respect of which the trademark is registered are pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; ointment, plasters, materials for dressing; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
- (9) The specific products and/or service under international class 5 in respect of which the trademark is registered are Cod liver oil, tonics (medicine), edible plant fibers (non-nutritive), medical tea for weight loss, medicinal plants roots, medical glucose, Chinese herbal medicine, rheumatism oil, medical nutritional drinks and baby food.
- (10) The specific products and/or service under international class 44 in respect of which the trademark is registered are Medical massage, healthcare, vapor bath, beauty salon, massage, manicure, sauna services, spa, beautician services and veterinary assistance.
- (11) The specific products and/or service under international class 5 in respect of which the trademark is registered are Medicine for human, medicinal capsules, pharmaceutical preparations, chemical pharmaceutical preparations, anodyne, medical ointments, pharmaceutical capsules, Chinese herbal medicine, medical nutrition and oil.

(b) Domain name

As at the Latest Practicable Date, the Group had registered the following domain names:

Domain Name	Registered Owner	Registration Date	Expiry Date
www.royalmedic.com.hk	Royal Medic (Holdings) Limited	3 December 2002	5 December 2014
www.royalmedic.com	Royal Medic (Holdings) Limited	31 December 2004	31 December 2013

C. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

1. Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations

Immediately following completion of the Capitalisation Issue and the Placing and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or the associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange under 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 entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, will be as follows:

Name of Director	Capacity/nature of interest	Number of Shares	Approximate percentage of interest in the Company
Mr. Chan	Interest of a controlled corporation (<i>Note 1</i>)	385,400,000 (long position)	75%
Madam Tsang	Interest of spouse (<i>Note 2</i>)	385,400,000 (long position)	75%

Notes:

- (1) Mr. Chan owns the entire issued share capital of Able Island. Accordingly, Mr. Chan is deemed to be interested in the 385,400,000 Shares held by Able Island by virtue of the SFO.
- (2) Madam Tsang is the wife of Mr. Chan, who owns the entire issued share capital of Able Island. Accordingly, Madam Tsang is deemed to be interested in the 385,400,000 Shares held by Able Island by virtue of the SFO.

2. Interests and short positions of Substantial Shareholders in the shares, underlying shares and debentures of the Company and the associated corporations

Immediately following completion of the Capitalisation Issue and the Placing and taking into no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, so far as it is known to the Directors, the following persons, not being a Director or chief executive of the Company, will have an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is interested, directly or indirectly, 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 the Group:

Name	Capacity/nature of interest	Number of Shares	Approximate percentage of interest in the Company
Able Island	Beneficial owner (<i>Note</i>)	385,400,000 (long position)	75%

Note: The entire issued share capital of Able Island is beneficially owned by Mr. Chan. Accordingly, Mr. Chan is deemed to be interested in the 385,400,000 Shares held by Able Island by virtue of the SFO.

3. Particulars of service contracts

(a) Executive Directors

Each of the executive Directors has entered into a service agreement with the Company. The terms and conditions of each of such service agreements are similar in all material aspects. Each service contract is for an initial term of three years and shall continue thereafter unless and until it is terminated by the Company or the Director giving to the other not less than three months' prior notice in writing. Under the service agreements, the initial annual remuneration (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) payable to the executive Directors are as follow:

Name	HK\$
Mr. Chan	1,800,000
Mr. Wong	720,000
Mr. Foo Chi Ming	1,200,000

Each of the executive Directors is entitled to a discretionary bonus, the amount of which is determined with reference to the operating results of the Group and the performance of the executive Director. Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and management bonus payable to himself or herself.

(b) Non-executive Director and Independent non-executive Directors

Each of the non-executive Director and the independent non-executive Directors has entered into a service agreement with the Company under which each of them is appointed for a period of two years and shall continue thereafter unless and until it is terminated by the Company or the Director giving to the other not less than three month's notice. The annual director's fee payable to each of the non-executive Director and the independent non-executive Directors are as follows:

Name	<i>HK\$</i>
<i>Non-executive Director</i>	
Madam Tsang	240,000
<i>Independent non-executive Directors</i>	
Mr. Ng Ka Ming	240,000
Mr. Cheng Kwok Kin, Paul	240,000
Mr. Wei Jianan	240,000

Save for the annual director's fees mentioned above, none of the non-executive Director and the independent non-executive Directors is entitled to receive any other remuneration for holding his/her office as an non-executive Director or an independent non-executive Director.

Save as disclosed above, none of the Directors has or is proposed to have any service agreement with the Company or any of the subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

4. Remuneration of Directors

The Company's policies concerning remuneration of the Directors are as follows:

- (a) the amount of remuneration is determined by the Remuneration Committee and on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
- (b) non-cash benefits may be provided to the executive Directors under their remuneration package; and
- (c) the Directors may be granted, at the discretion of the Board, options pursuant to the Share Option Scheme, as part of this remuneration package.

During the financial year ended 31 March 2013, the aggregate remuneration paid and benefits in kind paid by the Group to the Directors were approximately HK\$795,000. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.

It is expected that an aggregate of approximately HK\$4,095,000 will be paid as remuneration to the Directors by the Group in respect of the financial year ending 31 March 2014 pursuant to the present arrangement.

Save as disclosed in Appendix I to this prospectus, none of the Directors received any remuneration or benefits in kind from the Group during the Track Record Period.

5. Agency fees or commissions received

The information on the agency fees or commissions payable to the Underwriters is set out in the paragraph headed “Total commissions, fees and expenses” under the section headed “Underwriting” of this prospectus.

Save as disclosed herein and in the section headed “Directors, senior management and employees” and the accountants’ report set out in Appendix I to this prospectus, none of the Directors or experts (as named in the paragraph headed “Consents of experts” in this Appendix) who received or will be entitled to receive any commissions, discounts, brokerages or other special terms in connection with the issue of any Share of the Company within two years immediately preceding the date of this prospectus.

6. Related party transactions

During the two years preceding the date of this prospectus, the Group was engaged in related party transactions as described in note 29 of the Accountants’ Report set out in Appendix I to this prospectus.

7. Disclaimers

Save as disclosed in this prospectus:

- (a) so far as the Directors are aware, none of the Directors or chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of the associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, once the Shares are listed;
- (b) so far as the Directors are aware, none of the Directors and experts referred to under the heading “Consents of experts” of this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

- (c) none of the Directors and experts referred to under the heading “Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of the Group, excluding contracts which are determinable by the employer within one year without payment of compensation other than statutory compensation;
- (e) the Directors are not aware of any person, not being a Director or chief executive of the Company, who will, immediately following completion of the Capitalisation Issue and the Placing (taking no account of any Shares which may be falling to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), be interested in or has short positions in the Shares or underlying shares of the Company which have to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO once the Shares are listed, or, who is, 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 other member of the Group; and
- (f) none of the experts referred to under the heading “Consents of experts” of this Appendix has any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

D. SHARE OPTION SCHEME

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the sole Shareholder passed on 24 September 2013 are set out below:

1. Purpose of the Share Option Scheme

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that Eligible Participants (as defined in paragraph 2 below) have made or may make to the Group.

The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in the Company with the view to achieving the following principal objectives:

- (a) motivate the Eligible Participants to optimise their performance and efficiency for the benefit of the Group; and
- (b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are, will or expected to be beneficial to the Group.

2. Who may join and basis of eligibility

The Board may at its discretion grant right(s) to subscribe for Share(s) pursuant to the terms of the Share Option Scheme (“**Option**”) to any of the following persons (“**Eligible Participants**”):

- (a) any Director, employee or officer of any company in the Group who is employed by any company in the Group (whether full time or part time) (“**Employee**”), consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company (“**Affiliate**”); or
- (b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, Employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or
- (c) a company beneficially owned by any Director, Employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

3. Price of Shares

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each Grantee (as defined in paragraph 4 below) and shall not be less than the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the relevant Option, which must be a Business Day;
- (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange’s daily quotations sheets for the 5 Business Days immediately preceding the date of grant of the relevant Option; and
- (c) the nominal value of a Share on the date of grant.

4. Grant of Option and acceptance of Offer

An offer for the grant of Option shall be deemed to have been accepted when the Company receives the letter containing the offer duly signed by the relevant Eligible Participant who accepts the offer (“**Grantee**”) together with a remittance of HK\$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of the Company as consideration for the grant thereof. Such remittance shall in no circumstances be refundable. Once accepted, the Option is granted as from the date on which it was offered to the relevant Eligible Participant.

5. Maximum number of Shares

- (a) Subject to paragraphs (b) to (d) below, the maximum number of Shares which may be issued upon exercise of all Options granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 51,500,000 Shares, being 10% of the

Shares in issue as at the Listing Date (the “**Scheme Mandate Limit**”) unless approved by the Shareholders of the Company pursuant to paragraph (c) below. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

- (b) Subject to paragraphs (c) and (d) below, the Scheme Mandate Limit may be renewed by the Shareholders of the Company in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by Shareholders of the Company in general meeting. Upon such renewal, all Options granted under the Share Option Scheme and any other share option schemes of the Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to the Shareholders of the Company containing such relevant information from time to time as required by the GEM Listing Rules in connection with the general meeting at which their approval is sought.
- (c) Subject to paragraph (d) below, the Board may seek separate Shareholders’ approval in general meeting to grant Options beyond the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by the Company before such approval is sought and the Company must issue a circular to the Shareholders of the Company containing such relevant information from time to time as required by the GEM Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (d) The maximum number of Shares which may 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 schemes involving the issue or grant of Options or similar rights over Shares or other securities by the Company must not, in aggregate, exceed 30% of the Shares in issue from time to time. Notwithstanding anything contrary to the terms of the Share Option Scheme, no Options may be granted under the Share Option Scheme or any other share option schemes of the Company if this will result in the said 30% limit being exceeded.

6. Maximum entitlement of each eligible participant

The total number of Shares issued and to be issued upon exercise of the Options granted to each Eligible Participant (including both exercised and outstanding Options in any 12-month period must not exceed 1% of the Shares of the Company in issue. Any grant of further Options above this limit shall be subject to the following requirements:

- (a) approval of the Shareholders of the Company at general meeting, with such Eligible Participant and its associates abstaining from voting;
- (b) a circular in relation to the proposal for such further grant having been sent by the Company to its Shareholders with such information from time to time as required by the GEM Listing Rules;

- (c) the number and terms of the Options to be granted to such proposed Eligible Participant shall be fixed before the Shareholders' approval mentioned in paragraph (a) above; and
- (d) for the purpose of calculating the minimum exercise price for the Shares in respect of the further Options proposed to be so granted, the date of Board meeting for proposing such grant of further Options shall be taken as the date of offer of such Options.

7. Grant of Options to certain connected persons

Any grant of Options to any Director, chief executive, management Shareholder or substantial Shareholder of the Company, or any of their respective associates, must be approved by the independent non-executive Directors (but excluding, for all purposes, any independent non-executive Director who is a proposed Eligible Participant).

Where any grant of Options to a substantial Shareholder of the Company or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of the Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and
- (b) 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 the Shareholders on a poll in a general meeting where all connected persons of the Company must abstain from voting (except where such connected person(s) intends to vote against the proposed grant of Option and his intention to do so has been stated in the circular to be sent to the Shareholders). The Company will send a circular to the Shareholders containing the information required under the GEM Listing Rules.

8. Restrictions on the times of grant of Options

The Board shall not offer the grant of an Option to any Eligible Participant (i) after inside information has come to its knowledge, until such inside information has been announced pursuant to the relevant requirements of the GEM Listing Rules; or (ii) during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules for the approval of the Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and
- (b) the deadline for the Company to publish an announcement of its results for any year, half-year or quarter-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules),

and ending on the date of the results announcement.

The period during which no Option may be granted will cover any period of delay in the publication of a results announcement.

9. Time of exercise of Option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

The Board may impose such terms and conditions of the Offer either on a case-by-case basis or generally as are not inconsistent with the provision of the Share Option Scheme including but not limited to the minimum period for such an Option must be held, if applicable.

10. Performance targets

Save as determined by the Board and provided in the offer of grant of the Options, there is no performance target that must be achieved before the Options can be exercised.

11. Ranking of Shares

The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Articles of the Company in force as at the allotment date and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holder to participate in all dividends or other distributions paid or made after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be on or before the allotment date. Any Share allotted upon the exercise of an Option shall not carry voting rights until the name of the Grantee has been duly entered into the register of members of the Company as the holder thereof.

12. Rights are personal to Grantee

An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option.

13. Rights on cessation of employment or services

- (a) in the event of death of the Grantee (being an individual) before exercising the Option in full, his legal personal representatives may exercise the Option up to the Grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within the period of 12 months following his death or such longer period as the Board may determine.
- (b) where the Grantee is an Employee, Director, consultant, professional, agent, partner, adviser of or contractor to the Group or an Affiliate at the time of the grant of the relevant Option(s) and his employment or service to the Company is terminated on the ground of disability, the Grantee may exercise the Option (to the extent exercisable as

at the date on which such Grantee ceases to be an Employee, Director, consultant, professional, agent, partner, adviser of or contractor to the Group or an Affiliate and not exercised) within 6 months following such cessation or such longer period as the Board may determine.

- (c) where the Grantee is an Employee at the time of the grant of the relevant Option(s), in the event that such Grantee shall cease to be an Employee but becomes, or continues to be, a consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate, then the Option (to the extent exercisable as at the date on which such Grantee ceases to be an Employee and not exercised) shall be exercised within 3 months following the date of such cessation or such longer period as the Board may determine.
- (d) where the Grantee is an Employee at the time of the grant of the relevant Option(s), in the event that such Grantee shall cease to be an Employee but becomes, or continues to be, a Director of the Group or an Affiliate, then the Option(s) (to the extent exercisable as at the date on which such Grantee ceases to be an Employee and not exercised) granted prior to the date of his becoming a Director of the Group or an Affiliate shall remain exercisable until its expiry in accordance with the provisions of the Share Option Scheme and the terms and conditions upon which such Option(s) is granted unless the Board shall determine to the contrary.
- (e) subject to paragraphs (c) and (d) above, in the event of the Grantee who is an Employee ceasing to be an Employee for any reason other than his death, disability or the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his/her integrity or honesty, the Grantee may exercise the Option (to the extent exercisable as at the date of the relevant event and not exercised) within 30 days following such cessation.
- (f) in the event of the Grantee, who is a Director, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate but not an Employee, ceasing to be a Director, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate (as the case may be) for any reason other than his death (in the case of a Grantee being an individual) or disability (in the case of a Grantee being a Director or consultant of the Group or an Affiliate), the Option (to the extent exercisable as at the date of such cessation and not exercised) shall be exercised within 30 days following the date of such cessation or such longer period as the Group Board may determine.

14. Rights on a general offer

If a general offer (whether by way of takeover offer as defined in the Takeovers Code 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 concert with the offeror) and such offer becomes or is declared unconditional, each Grantee shall be entitled to exercise the Option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised) in full or in part at any time within 14 days after the date on which the offer becomes or is declared unconditional.

15. Rights on winding-up

In the event of a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to all Grantees and each Grantee may, by notice in writing to the Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant Option (such notice to be received by the Company not later than 2 Business Days (excluding any period(s) of closure of the Company's share registers) prior to the proposed meeting) exercise the Option (to the extent exercisable as at the date of the notice to the Grantee and not exercised) either in full or in part and the Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of the Company's share registers) immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise.

16. Rights on compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company (other than any relocation schemes as contemplated in Rule 10.18(3)), the Company shall give notice thereof to all Grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon each Grantee may, by notice in writing to the Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant Option (such notice to be received by the Company not later than 2 Business Days (excluding any period(s) of closure of the Company's share registers) prior to the proposed meeting) exercise the Option (to the extent exercisable as at the date of the notice to the Grantee and not exercised) either in full or in part and the Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of the Company's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise credited as fully paid and registered the Grantee as holder thereof.

17. Effects of alterations to share capital

In the event of any alteration in the capital structure of the Company while an Option remains exercisable, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of capital of the Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to the Options so far as unexercised; and/or the exercise price; and/or the method of exercise of the Options; and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must give a Grantee the same proportion of the equity capital as that to which that Grantee was previously entitled and shall be made on the basis that the aggregate exercise price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than nominal value and, unless with the prior approval of the Company's Shareholders in general

meeting, no such adjustments may be made to the advantage of the Grantee. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial adviser of the Company or the auditors of the Company must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the GEM Listing Rules and the supplementary guidance set out in the letter issued by the Stock Exchange dated 5 September 2005 and any further guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

18. Lapse of Options

An Option (to the extent that such Option has not already been exercised) shall lapse and not be exercisable on the earliest of:

- (a) the expiry of the exercise period as set out in paragraph 9 above;
- (b) the expiry of any of the periods referred to in paragraphs 13, 14, 15 and 16 above;
- (c) subject to paragraph 15 above, the date of the commencement of the winding-up of the Company;
- (d) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph 16 above;
- (e) the date on which the Grantee who is an Employee ceases to be an Employee by reason of the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty. A resolution of the Board to the effect that the employment of a Grantee who is an Employee has or has not been terminated on one or more grounds specified in this paragraph shall be conclusive and binding on the Grantee;
- (f) the happening of any of the following events, unless otherwise waived by the Board:
 - (i) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of the Grantee (being a corporation);
 - (ii) the Grantee (being a corporation) has ceased or suspended payment of its debts, become unable to pay its debts (within a meaning of section 178 of the Companies Ordinance or any similar provisions under the Companies Law) or otherwise become insolvent;
 - (iii) there is unsatisfied judgment, order or award outstanding against the Grantee or the Company has reason to believe that the Grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;

- (iv) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of type mentioned in subparagraphs (f)(i), (ii) and (iii);
- (v) a bankruptcy order has been made against the Grantee or any Director of the Grantee (being a corporation) in any jurisdiction; or
- (vi) a petition for bankruptcy has been presented against the Grantee or any Director of the Grantee (being a corporation) in any jurisdiction;
- (g) the date on which a situation as contemplated under in paragraph 12 above arises;
- (h) the date on which the Grantee commits a breach of any terms or conditions attached to the grant of the Option, unless otherwise resolved to the contrary by the Board; or
- (i) the date on which the Board resolves that the Grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria.

19. Cancellation of Options granted but not yet exercised

The Board shall have the absolute discretion to cancel any Options granted at any time if the Grantee so agreed provided that where an Option is cancelled and a new Option is proposed to be issued to the same Grantee, the issue of such new Option may only be made with available but unissued Shares in the authorised share capital of the Company, and available ungranted Options (excluding for this purpose all cancelled Options) within the limits referred to in paragraph 5.

20. Period of the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by the Shareholders, after which no further Options will be issued but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

21. Alteration to the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except those specific provisions relating to matters set out in Rule 23.03 of the GEM Listing Rules (or any other relevant provisions of the GEM Listing Rules from time to time applicable) which cannot be altered to the advantage of Grantees or prospective Grantees except with the prior approval of the Shareholders of the Company in general meeting. No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the Grantee as would be required of the Shareholders of the Company under the Articles for the time being of the Company for a variation of the rights attached to Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the Shareholders of the Company in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of the Directors or administrators of the Share Option Scheme in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders of the Company in general meeting.

The amended terms of the Share Option Scheme must continue to comply with the relevant provisions of the GEM Listing Rules as may be amended from time to time.

Subject to the above paragraphs, the Board may at any time alter, amend or modify the terms and conditions of the Share Option Scheme to the extent as considered necessary by the Board to implement the terms of the Share Option Scheme.

22. Termination to the Share Option Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event, no further Options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the GEM Listing Rules which are granted and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

23. Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon the Stock Exchange granting approval for the listing of and permission to deal in any Shares to be issued and allotted by the Company pursuant to the exercise of Options in accordance with the terms and conditions of the Share Option Scheme.

As at the Latest Practicable Date, no Option had been granted by the Company under the Share Option Scheme. Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme. The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 51,500,000 Shares, being 10% of the total number of Shares in issue as at the Listing Date.

E. OTHER INFORMATION**1. Tax and other indemnities**

Able Island (the “**Indemnifier**”), pursuant to a deed of indemnity referred to the paragraph headed “Summary of material contracts” of this Appendix, agreed and undertook to indemnify and at all times keep each member of the Group indemnified, on demand, against any taxation claim in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Placing becomes unconditional (the “**Effective Date**”), save as, inter alia, the following:

- (a) to the extent (if any) that provision, reserve or allowance has been made for such taxation in the audited accounts of the Group for the Track Record Period; or
- (b) to the extent that liability for such taxation would not have arisen but for some act or omission of, or transaction entered into by a member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the Indemnifier unless carried out; made or entered into in the course of normal day to day operations or pursuant to a legally binding commitment created on or before Listing Date; or
- (c) to the extent that any provisions or reserve made for taxation in the audited accounts of the Group up to 31 March 2013 is finally established to be an over-provision or an excessive reserve; or
- (d) to the extent that such taxation arises or is incurred as a consequence of any change in the law having retrospective effect and coming into force after the date hereof or to the extent that such taxation arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect.

The Indemnifier, pursuant to the deed of indemnity, agreed and undertook to indemnify and keep indemnified the Group, on demand, against any actions, claims, losses, damages, costs, charges and expenses which may be made against, suffered or reasonably incurred by any members of the Group in respect of or arising, directly or indirectly, from or in connection with its failure in complying with the regulatory requirements on or before the Effective Date under (a) the Companies Ordinance to make timely filings in relation to certain company secretarial matters with the Companies Registry of Hong Kong; and (b) various legislations in relation to pharmaceutical products and medicine in Hong Kong arising from the historical advertisements, packaging and/or inserts of the Group’s products.

Mr. Chan, pursuant to the deed of indemnity, guaranteed, unconditionally and irrevocably, as primary obligator to each of the member of the Group the due observance and performance by the Indemnifier of all its obligations, representations, undertakings, agreement and warranties contained in the deed of indemnity and that in the event that the Indemnifier shall fail to observe and perform in accordance with the deed of indemnity, Mr. Chan shall on demand by the Company (for itself and as trustee for other members of the Group) (i) make good or rectify such default; (ii)

indemnify and keep indemnified fully each of the members of the Group against any loss, liabilities, damages, costs and expenses whatsoever each of the members of the Group may have suffered or incurred as a result of such failure on the part of the Indemnifier.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in Cayman Islands, being jurisdiction in which the Company comprising the Group is incorporated.

2. Litigation

Save as disclosed in the paragraph headed “Litigation and Compliance” in the section headed “Business” in this prospectus, as at the Latest Practicable Date, there is no current litigation or any pending or threatened litigation or arbitration proceedings against any member of the Group that could have a material adverse effect on the Group’s financial condition or results of operation.

3. Application for Listing of Shares

The Sole Sponsor has made an application on behalf of the Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme on the Stock Exchange.

4. Preliminary expenses

The estimated preliminary expenses of the Company are approximately HK\$26 million, and are payable by the Company.

5. Promoter

The Company has no promoter.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice, which is contained in this prospectus:

Name	Qualification
WAG Worldsec Corporate Finance Limited	A corporation licenced by the SFC to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
CCIF CPA Limited	Certified Public Accountants, Hong Kong
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Lee and Li, Attorneys-at-Law	Legal advisers as to Taiwan laws
Jackson Poon Chin Ping	A Barrister-at-law in Hong Kong
Asset Appraisal Limited	Property valuer
Ipsos Hong Kong Limited	Independent market research firm

7. Consents of experts

Each of the parties listed in the paragraph headed “Qualifications of experts” has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its letter, report, valuation certificate, opinions and/or summaries of opinions (as the case may be) and references to its name included herein in the form and context in which they are respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Share Registrar

The register of members of the Company will be maintained in the Cayman Islands by Royal Bank of Canada Trust Company (Cayman) Limited at 4th Floor, Royal Bank House, 24 Shedden Road, PO Box 1586, Grand Cayman KY1-1110, Cayman Islands and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Hong Kong. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company’s branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

10. No material adverse change

Save as disclosed in the paragraph headed “No Material Adverse Change” in the section headed “Financial Information” in this prospectus, the Directors confirm that there has been no material adverse change in the financial prospects of the Company or its subsidiaries since 31 March 2013 (being the date to which the latest audited financial statements of the Group were made up).

11. Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) within two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued, agree to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) within two years immediately preceding the date of this prospectus, 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 the Company or any of its subsidiaries;
 - (iii) within two years immediately preceding the date of this prospectus, no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares;
 - (iv) no share, warrant or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (v) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 12 months immediately preceding the date of this prospectus;
- (b) the Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (c) all necessary arrangements have been made enabling the Shares to be admitted into CCASS;
- (d) the Directors confirm that none of them shall be required to hold any shares by way of qualification and none of them has any interest in the promotion of the Company;

- (e) None of the Sole Sponsor, CCIF CPA Limited, Conyers Dill & Pearman (Cayman) Limited, Lee and Li, Attorneys-at-Law, the Hong Kong Legal Counsel, Asset Appraisal Limited and Ipsos:
 - (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

12. Taxation of holders of Shares

(a) *Hong Kong*

Dealing in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(b) *Cayman Islands*

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

(c) *Consultation with professional advisers*

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 the Shares or exercising any rights attaching to them. It is emphasised that none of the Company, the Directors or their parties involved in the Placing accepts 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 or exercising any rights attaching to them.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in the paragraph headed “Consents of experts” of Appendix V to this prospectus, and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” of Appendix V to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Hastings & Co., 5th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and the Articles;
2. the accountants’ report prepared by CCIF CPA Limited, the text of which is set out in Appendix I to this prospectus;
3. the letter relating to the unaudited pro forma financial information issued by CCIF CPA Limited, the text of which is set out in Appendix II to this prospectus;
4. the letter and valuation certificates relating to the property interests of the Group prepared by Asset Appraisal Limited, the text of which is set out in Appendix III to this prospectus;
5. the letter prepared by Conyers Dill & Pearman (Cayman) Limited, legal advisers to the Company as to the Cayman Islands law, summarizing certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
6. the legal opinion issued by the Hong Kong Legal Counsel, in respect of certain aspects of Hong Kong laws relating to the operation of the Group;
7. the legal opinion issued by Lee and Li, Attorneys-at-Law, legal advisers to the Company as to the Taiwan laws, summarizing certain aspects of Taiwan laws relating to the operation of the Group;
8. the industry report issued by Ipsos referred to in the section headed “Industry Overview”;
9. the Companies Law;
10. the service contracts referred to in the paragraph headed “Particulars of service contracts” in Appendix V to this prospectus;
11. the rules of the Share Option Scheme referred to in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus;
12. the material contracts referred to in the section headed “Summary of material contracts” in Appendix V to this prospectus; and
13. the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus.