

HISTORY AND DEVELOPMENT

The Group's history can be traced back to 1991 when Ms. Tsang set up Modern Beauty Saloon Limited to operate the Group's first beauty salon under the tradename "**Modern Beauty Salon** 現代美容中心" at Hong Kong Chinese Bank Building in Causeway Bay, Hong Kong. The salon then provided mainly facial, massage and make-up services and occupied a gross floor area of approximately 2,000 sq.ft.

In December 1992, the Group opened its second service centre at 1st Floor, No. 46 Carnarvon Road, Tsimshatsui, Kowloon which occupied a total saleable area of approximately 1,000 sq.ft. The Group also started providing fitness and slimming services to its customers in January 1992. It mainly provided gymnastic facilities.

The Group has maintained a customer base since 1991 and as at the Latest Practicable Date, the Group maintained a customer base of approximately 149,000 customers.

The Group's network of service centres expanded gradually from 1993 to 2000, during which it opened ten service centres. These service centres were located at prime commercial districts such as Central, Causeway Bay, Tsimshatsui and Mongkok in Hong Kong. Service centres opened during the period include the one located at the shopping plaza at Miramar Hotel, being the Group's prime service centre focusing on fitness services. In order to cope with the growing customer base, the Group opened five service centres in 2001, including the service centre at Asia Standard Tower, Central, Hong Kong, which occupied a total gross floor area of approximately 37,000 sq.ft. and is the Group's largest service centre as at the Latest Practicable Date.

The Group appointed Ms. Choi Siu Fan Ada (蔡少芬小姐) as its first spokesperson in July 1999 to promote the Group's beauty and healthcare services. With the increasing popularity of slimming services, the Group appointed Ms. Cheng Sau Man (鄭秀文小姐) as its spokesperson in 2001 to promote its slimming services.

In 2002, the Group extended its beauty services to include intense pulse light services, such as pigment removal treatment, hair reduction treatment, wrinkle elimination treatment, collagen treatment and botox treatment, and most of these services are provided by registered medical practitioners in Hong Kong. The Group engaged eight registered medical practitioners in Hong Kong as independent contractors as at the Latest Practicable Date.

In 2002, the Group also set up the Beauty Expert International College in Tsimshatsui, Kowloon which has been providing internal training to its frontline beauty staff for the purpose of maintaining a high level of service standard. The college has obtained approval from international beauty institutions such as CIBTAC since 2004 for offering various professional training courses and providing examinations to the frontline beauty staff of the Group and the public.

In June 2002, the Group commenced selling beauty and skincare products under its own brandname "**be**" at its network of service centres. The Group also started to provide beauty and facial services to male customers under the tradename "**be homme**" in October 2002.

In response to market demand, the Group commenced providing spa services to its customers in January 2003 under the tradename “**Lemongrass Spa**”. In addition, the tradenames of “**Slim Express** 大家歸瘦” and “**Modern Fitness**” have been established since 2003 to promote the Group’s slimming and fitness service lines and strengthen its market position in these services.

With increasing popularity of spa services, the Group has promoted its spa and massage services in the market under the tradename “**be Sanctuary Spa**” since 2004.

The Group has launched advertising campaigns to promote its beauty and healthcare services and appointed Ms. Cheung Man (張敏小姐), Ms. Tsang Po Yee Bowie (曾寶儀小姐) and Ms. Cheung Yui Ling (張睿玲小姐) as the Group’s spokespersons since 2004.

In 2004, the Group was awarded “Superbrand Status” and “Caring Company” for 2004/05 by the Hong Kong Superbrands Council and the Hong Kong Council of Social Service, respectively.

During 2002 to 2005, the Group expanded its network of service centres to satisfy the customers’ increasing demands for its services. It opened one to three service centres each year during this period. The Group’s first service centre operated under the tradename “**be Sanctuary Spa**” was opened at Hopewell Centre, Wanchai, Hong Kong in July 2004. It was awarded ISO9001:2000 Quality Qualification by the British Standards Institution in 2005 in the scope of the design and provision of facial and slimming services, and the provision of spas and body massage services. The Group was awarded the Best of the Best for Executives 2005 by “Capital Magazine” for its quality services.

Over the years, the Group has been reacting swiftly to market demands and continuing to increase the variety of fitness services. It introduced training courses like aerobics in 2000, Thai boxing (拳道) in 2003 and hot yoga in 2004. It also started to provide nail beauty services in 2004 and teeth whitening services in 2005.

In December 2005, the Group opened a service centre under the tradename of “**Modern Beauty Salon** 現代美容中心” at its owned property at Yuen Long, Hong Kong.

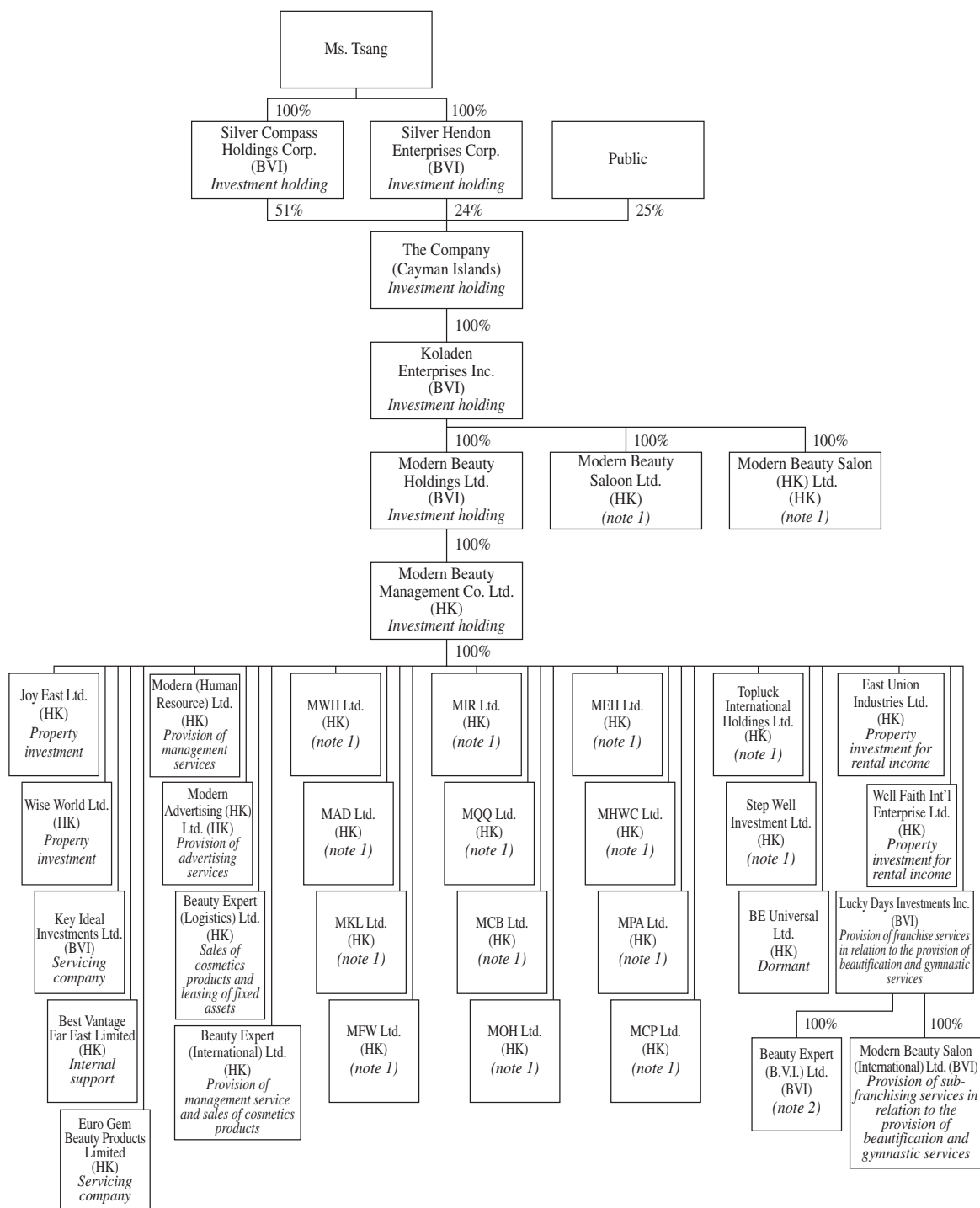
The number of service centres and the number of frontline beauty staff as at 31st March, 2003, 2004 and 2005 and 31st July, 2005 are summarized as follows:

	As at 31st March,			As at 31st July,
	2003	2004	2005	2005
Number of frontline beauty staff	668	700	762	831
Number of service centres	16	15	13	13

As at the Latest Practicable Date, the Group employed approximately 1,000 staff and operated 15 service centres providing comprehensive beauty and healthcare services in spacious environment with luxury and resort-style décor in Hong Kong.

GROUP STRUCTURE

The corporate and shareholding structure of the Company immediately following completion of the Share Offer (assuming the Over-allotment Option is not exercised) is set out below:



Notes:

1. Provision of beauty parlour services and sales of cosmetics products.
2. Provision of franchise and trademark services in relation to the provision of beautification and gymnastic services.
3. Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are wholly-owned by Ms. Tsang, the founder of the Group and an executive Director.
4. Assuming the Over-allotment Option is fully exercised, the equity interest of Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. in the Company will become 49.2% and 23.1%, respectively, immediately following completion of the Share Offer.
5. The dates of incorporation of the companies within the Group are set out below:

Company name	Date of incorporation
Modern Beauty Salon Holdings Limited	19th August, 2005
Koladen Enterprises Inc.	28th July, 2005
Modern Beauty Holdings Limited	16th March, 2004
Modern Beauty Saloon Limited (formerly known as Bestjoy Limited)	25th April, 1991
Modern Beauty Salon (HK) Limited	9th November, 2001
Modern Beauty Management Company Limited	19th March, 2004
Joy East Limited	4th April, 2005
Wise World Limited	4th April, 2005
Key Ideal Investments Limited	20th November, 2003
Best Vantage Far East Limited	11th August, 2004
Euro Gem Beauty Products Limited (formerly known as Rich Elite Investments Limited)	22nd April, 2005
Modern (Human Resource) Limited	18th December, 2002
Modern Advertising (HK) Limited	18th October, 2000
Beauty Expert (Logistics) Limited	18th December, 2002
Beauty Expert (International) Limited (formerly known as Brain Hope International Limited)	11th October, 1999
MWH Limited	18th December, 2002
MAD Limited	18th December, 2002

BUSINESS

Company name	Date of incorporation
MKL Limited	18th December, 2002
MFW Limited	18th December, 2002
MIR Limited	18th December, 2002
MQQ Limited	18th December, 2002
MCB Limited	18th December, 2002
MOH Limited	18th December, 2002
MEH Limited	18th December, 2002
MHWC Limited (formerly known as Wealth Base Holdings Limited)	27th March, 2003
MPA Limited (formerly known as Luck Gain Trading Limited)	1st September, 2003
MCP Limited (formerly known as Keen Fortune International Industrial Limited)	1st September, 2003
Topluck International Holdings Limited	19th October, 2001
Step Well Investment Limited	2nd November, 2001
BE Universal Limited (formerly known as Lucky Stand Limited)	3rd September, 2003
Beauty Expert (B.V.I.) Limited (formerly known as Lion Key Limited)	3rd July, 2001
East Union Industries Limited	18th October, 2000
Well Faith International Enterprise Limited	12th July, 2002
Lucky Days Investments Inc.	8th February, 2002
Modern Beauty Salon (International) Limited	24th June, 2002

BUSINESS

The Group is principally engaged in the provision of comprehensive beauty and healthcare services at its network of service centres in Hong Kong predominantly under its widely known brandname “**Modern Beauty Salon** 現代美容中心”. Its services can be broadly categorised into (i) beauty and facial services; (ii) spa and massage services; (iii) slimming services; and (iv) fitness services. Sales attributable to the above beauty and healthcare services amounted to approximately HK\$316.0 million, HK\$369.9 million, HK\$436.2 million and HK\$141.7 million for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively, representing approximately 94.6%, 96.9%, 95.5% and 93.9% of the Group’s sales for the respective periods. To a lesser extent, the Group also engages in the sales of beauty products and equipment which sales amounted to approximately HK\$18.0 million, HK\$11.7 million, HK\$20.7 million and HK\$9.3 million for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively, representing approximately 5.4%, 3.1%, 4.5% and 6.1% of the Group’s sales for the respective periods.

The Group’s beauty and healthcare services are marketed under different tradenames, which include “**Modern Beauty Salon** 現代美容中心” (for beauty and facial services), “**be Sanctuary Spa**” (for spa and massage services), “**Slim Express** 大家歸瘦” (for slimming services) and “**Modern Fitness**” (for fitness services). The Group employs different marketing channels to promote its services. These channels include exhibitions, slimming competitions, press interviews, advertisements in television, newspapers, magazines and the Group’s own website. The Group has also appointed celebrities including Ms. Choi Siu Fan Ada (蔡少芬小姐), Ms. Cheung Man (張敏小姐), Ms. Tsang Po Yee Bowie (曾寶儀小姐) and Ms. Cheung Yui Ling (張睿羚小姐) as the Group’s spokespersons to promote its various service lines.

The Group promotes its beauty and healthcare services by offering prepaid packages with discounted pricing to customers. The Directors believe that this prepayment mode of operation enables the Group to enhance customer loyalty and establish long-term relationship with them. As at the Latest Practicable Date, the Group maintained a customer base of approximately 149,000 customers. The prepaid packages are recorded as deferred revenue from the date of sales of prepaid packages. Service income is only recognised when the treatments are delivered to customers from time to time and in the event that the prepaid package is not fully utilised in accordance with the terms of its relevant underlying agreements, over a period of not more than three years from the date of purchases. As at 31st March, 2003, 2004, 2005 and 31st July, 2005, the accumulated prepaid packages amounted to approximately HK\$482.6 million, HK\$520.2 million, HK\$549.9 million and HK\$562.7 million, respectively. As at 31st March, 2003, 2004, 2005 and 31st July, 2005, the Group had approximately 52,000, 53,000, 55,000 and 57,000 customers with unexpired prepaid packages, respectively. Based on the Group’s past operation history under the prepayment package business model, the Directors believe that the Group’s future revenue can be secured.

With about 15 years of operation in Hong Kong, the Group has successfully developed a network of service centres with advanced beauty equipment and luxurious and resort style decoration, aiming at providing a relaxing and comfortable environment to customers.

As at the Latest Practicable Date, the Group operated 15 large-scale service centres in Hong Kong, the locations of which are shown in the following diagram. These service centres cover a gross floor area ranging from approximately 7,000 to 37,000 sq.ft. except one of the service centres located at Carnarvon Road with a saleable area of approximately 1,000 sq.ft. Majority of the Group's service centres are located in prime commercial districts in Hong Kong such as Causeway Bay, Admiralty, Wanchai, Central, Tsimshatsui and Mongkok.



In April 2005, one of the Group's service centres has been certified by the British Standards Institution for operating a Quality Management System which complies with the requirements of ISO9001:2000 in the scope of the design and provision of facial and slimming services, and the provision of spa and body massage services. To maintain the provision of quality services to its customers, the Group also operates the Beauty Expert International College, which provides professional training courses on beauty and healthcare services to frontline beauty staff of the Group and the public. The Group was awarded the Superbrand Status by the Hong Kong Superbrands Council in 2004 and the Best of the Best for Executive 2005 by "Capital Magazine" for its quality services and "Caring Company" from 2004/05 by the Hong Kong Council of Social Service.