

PRINCIPAL STRENGTHS OF THE GROUP

The Directors believe that the Group has the following principal competitive advantages in the beauty and healthcare service industry in Hong Kong:

- its widely known brandnames;
- its network of large-scale service centres;
- its comprehensive range of quality beauty and healthcare services; and
- its experienced management team, sales force and well-trained beauticians.

SERVICES AND PRODUCTS

The Group provides a wide range of beauty services and products to customers which can be classified into the following service lines:

- Provision of beauty and facial services
- Provision of spa and massage services
- Provision of slimming services
- Provision of fitness services
- Sales of beauty products and equipment

Beauty and facial services

The Group operates seven service centres under the tradename “**Modern Beauty Salon** 現代美容中心” to provide a wide range of beauty and facial services.

Beauty and facial services constitute the majority of the Group’s sales, which accounted for approximately 37.5%, 36.8%, 41.4% and 37.7% of the Group’s sales for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively. The Group provides different types of facial services to cater for different customer needs. These facial services include:

Series	Facial services
Whitening series	Whitening care spa facial
Moisturizing series	Milk spa facial
UV screening series	Anti-bacterial spa facial
Firming skin series	Amber essence spa facial

Series	Facial services
Anti-irritation series	Pearl whitening spa facial
Fresh series	Active berry spa facial Enzyme treat spa facial
Anti-oxidation series	Pure whitening spa facial

In addition to facial services, the Group also provides a wide range of beauty services to its customers. These beauty services include intense pulse light pigment removal, hair reduction, wrinkle elimination and face reshaping. The Group offers beauty and facial treatments on different facial parts which can be classified into six main categories, namely, facial skincare, eye, ear, hand, foot and body. The treatments are complemented with different kinds of facilities and equipment to provide tailor-made and personalised services to customers. The service centres of the Group are equipped with state-of-the-art skincare equipment such as Synergie Peel (microdermabrasion device), 3Faces, GPFlash 1 (pulsed light epilation system), Duolift (draining of toxin), Biocelase (treatment for cellulite), Dealight (hair removal system), Face Total (facial) and Diason 1030 (adiposit treatment).

Spa and massage services

In response to modern women's increasing consciousness on their health and individual image, the Group operates seven service centres under the tradename "**be Sanctuary Spa**" in Hong Kong to provide all-rounded relaxing and body treatment services to customers.

Services provided in these service centres include spa therapy, body scrub treatment, fruit mud treatment and hair treatment. There are a wide selection of different types of spa therapy, body scrub treatment, fruit mud treatment according to their skin types and their personal preferences. Customers of the Group can choose a specific type of spa therapy from the comprehensive range of spa therapy. As at the Latest Practicable Date, spa therapy offered at the Group's service centres includes sake spa, red wine spa, coffee spa, ginseng spa, udo spa, ginger spa, cane sugar spa, camomile spa, vinegar spa, petal (camomile/rose) spa, milk spa, beer spa, failan spa, bathing salt spa, green spa, aloe spa, essential oil spa, strawberry spa, orange spa, lemon spa, black tea spa, pomelo spa, tequila spa, chocolate spa, Chinese wine spa, honey spa, watermelon spa, slimming spa, oolong spa and foaming bath spa.

Body scrub treatments provided at the Group's service centres include cane sugar scrub treatment, green tea scrub treatment, almond scrub treatment, sesame scrub treatment, soy bean scrub treatment, orange scrub treatment, cucumber scrub treatment, ginseng scrub treatment, oat scrub treatment, sea salt scrub treatment, ginger scrub treatment and coffee scrub treatment.

Fruit mud treatments provided at the Group's service centres can be classified into two series, namely fresh series and moisturizing series. Fresh series include watermelon mud treatment, mineral mud treatment, aloe mud treatment, tomato mud treatment and cucumber mud treatment. Moisturising series include papaya mud treatment, yogurt mud treatment, almond mud treatment, sesame mud treatment, deep sea essence mud treatment and strawberry mud treatment.

The Group also provides different types of massage treatments. Massage treatments include aroma lymphatic drainage massage, aroma lymphatic cellulites massage, aroma lymphatic detoxification massage (metabolism), aroma slimming massage and wrap, golden body treatment (skincare and slimming), pepper slimming and protein lymphatic firming massage.

Spa and massage services accounted for approximately 21.5%, 22.9%, 19.3% and 21.2% of the Group's sales for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively.

The Group's service centres under the tradename "**be Sanctuary Spa**" are equipped with state-of-the-art spa facilities including Hydrotherapy (massage shower), Sunspectra (Spa massage machine), Thalaxia Spa, Total Spa and Oasys Sauna (sauna equipment). These facilities aim at soothing the body in a relaxing environment.

In order to meet the ever-changing market demand and customers' needs, the Group has been offering new spa and massage treatments to customers.

Professional beauty consultants, beauticians, massage therapists and manicure specialists are employed to maintain high service standard and ensure that personalized spa services are provided to customers. As at the Latest Practicable Date, spa and massage services were available for female customers only.

Slimming services

The Group provides a wide and comprehensive range of beauty and healthcare services with an emphasis on weight management under the tradename "**Slim Express 大家歸瘦**" and such services include whole and partial body slimming treatment. Body treatment services provided include aroma lymphatic drainage (edema), aroma lymphatic slimming treatment (cellulites), aroma lymphatic detoxification (metabolism), aroma slimming massage and wrap, golden body treatment (skincare and slimming), pepper slimming and protein lymphatic drainage (firming). Service centres where slimming services are provided are also equipped with advanced healthcare and slimming equipment such as Slim fit G & G, Slimway Tunnel, Slim Project Plus, Slimware Pro, Resolution I, Lymph Beauty, Impulsor and Shapemaster which assist customers to revive body figures under proper guidance from independent professional consultants, such as medical practitioner, slimming consultants, nutritionists and counsellors.

Slimming services accounted for approximately 28.4%, 30.8%, 30.3% and 30.4% of the Group's sales for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively.

Fitness services

The Group provides a series of gymnasium, yoga, Thai boxing (拳道) and aerobic courses in its service centres under tradename “**Modern Fitness**”. Fitness services accounted for approximately 7.2%, 6.4%, 4.5% and 4.6% of the Group’s sales for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively.

The Group’s service centres under its tradename “**Modern Fitness**” are equipped with different kinds of state-of-the-art gymnasium equipment including treadmill (running machine), stepper, elliptical, recumbent bike, upright bike and rowel.

Professional fitness instructors and specialists are stationed in the service centres to provide instructions to customers.

Beauty products and equipment

The Group offers a wide variety of beauty and skincare products targeting health and beauty-conscious customers. These products cater for skin, eye, hand, foot or body. Beauty and skincare products distributed by the Group are under its own brandname “**be**” or brandnames of other third parties. These beauty and skincare products are sourced from third party suppliers in overseas countries including Europe and Australia and sold under the Group’s own brandname “**be**” and brandname of other third parties.

As at the Latest Practicable Date, the “**be**” products distributed by the Group include skincare lotion, cleanser, eye gel, serum, mask, washing foam, skin repairing cream and body massage oil. These products are categorised under different series including pearl whitening series, F4 series, serum series, essential oil series and massage oil series. These “**be**” products are distributed through the Group’s service centres and other personal care stores, concession counter at department stores and retail outlets operated by independent third parties in Hong Kong.

The “**be**” products distributed also include facial, skincare and eyecare products and body care products. Facial, skincare and eyecare products include cleanser, toner, collagen ampoules mask, sunray protection serum and cream, moisturiser, intensive pulse light coupling gel and anti-aging mud. Body care products include body oil, burning gel, slim oil and slimming cream. Hand and foot care products include hand and nail cream, foot relaxing mud, foot wax and hand wax.

The Group also distributes beauty and skincare products and equipment under brandnames of third parties. As at the Latest Practicable Date, the Group entered into distribution agreements with five suppliers in Italy and the Netherlands for the exclusive distribution of beauty and skincare products and equipment under third party brandnames. Pursuant to the distribution agreements, the Group will place purchase orders for beauty and skincare products and equipment as and when necessary. The price will be the prices as set out in the pre-determined price lists in the agreements. There are not less than 250 beauty and skincare products and more than 10 types of beauty and skincare equipment such as Diason 1030 (for adiposit treatment), Slimfit G&G and Sunspectra (spa massage) listed under the distribution agreements. All these agreements cover Hong Kong and Singapore and some of them also cover the PRC, Malaysia and other Southeast Asian countries. The

duration of the agreements ranges from one to five years. There is a minimum annual purchase amount of €75,000 (being approximately HK\$728,000) under one of the agreements, which the Directors believe the Group can meet under normal circumstances. The Directors confirmed that the Group met the above minimum annual purchase amount during the three years ended 31st March, 2005 and the four months ended 31st July, 2005. Prior notices ranging from ten days to six months are required to terminate the relevant agreements.

Sales of beauty products and equipment accounted for approximately 5.4%, 3.1%, 4.5% and 6.1% of the Group's sales for the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively. The beauty products and equipment the Group sold to a related company amounted to approximately HK\$4,657,000, HK\$8,015,000, HK\$12,376,000 and HK\$5,984,000 for the three years ended 31st March, 2005 and four months ended 31st July, 2005, respectively. The Directors believe that introducing new beauty and skincare products will enable the Group to explore additional revenue source, expand its customer base and better cater for the changing demand and needs of its customers. In this connection, the Directors believe that introducing new beauty and skincare products to market is one of the key factors to maintain continuing success of the Group in the industry. As at the Latest Practicable Date, the Group has introduced approximately 50 types of beauty and skincare products to the market.

For each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, the Group's five largest customers in aggregate accounted for less than 5% of the Group's total sales. For each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, all of the Group's sales was settled in Hong Kong dollars.

Revenue model

For beauty-related services including beauty and facial services, spa and massage services and slimming services, the Group normally charges customers by way of prepaid beauty packages which mainly comprise particular types of beauty treatments. There are over 1,000 types of beauty treatments with unit price thereof ranging from HK\$10 to HK\$80,000. Depending on factors like choices of the customers, availability of the beauty treatments, intention of the Group to promote particular beauty treatments, popularity of any particular beauty treatments, the prepaid beauty packages purchased by the customers generally comprise various beauty-related services.

The prepaid packages are settled by credit card, which are collected from banks, cash or EPS in one lump sum. Normally the validity period of each prepaid beauty package is two years which may be extended for one more year at the discretion of the Group. Prepaid beauty packages over three years from the date of purchase are fully recognised as sales. The prepaid beauty packages are recorded as deferred revenue in the balance sheet at the point of sales. Since the year ended 31st March, 2003, as part of the marketing strategy, the Group commenced extensively offering free beauty packages to customers who purchased prepaid beauty packages from the Group. The effective selling price per usage, which is applied in the calculation of the deferred revenue for the unused prepaid beauty packages, is computed based on the price of the prepaid beauty package and the aggregate number of units under the prepaid beauty packages and free beauty packages. Prepaid beauty packages are recognised as sales in the profit and loss account based on the effective selling price per usage when the service treatments are delivered to customers from time to time.

BUSINESS

In addition to charging customers by way of prepaid beauty packages, the Group also, for promotion purposes, offers one-off beauty treatment at special price to new customers from time to time. In these cases, the new customers are required to make outright payments for the one-off beauty treatments. The special offer of one-off beauty treatment is offered to each new customer once. Customers are required to purchase prepaid beauty packages of the Group for subsequent utilisation of the Group's beauty related services. The Group does not maintain any system of membership and therefore does not require its customers to be registered as a member before they receive the services of the Group. When a customer first visits the Group's service centres for services, the personal information of the new customer will be recorded and kept in the Group's computer database as one of the Group's customers and a customer number will be assigned to the new customer. The Group's computer database keeps records, personal information and the types of services the customers received or purchased of all customers of the Group, including the beauty service customers and fitness customers. As at 31st March, 2003, 2004, 2005 and 31st July, 2005, the Group maintained a customer base of approximately 96,000 customers, 114,000 customers, 131,000 customers and 139,000 customers, respectively. The Group's customer base comprises customers who had ever visited the Group for any services since its commencement of business in 1991.

In respect of fitness services, the Group charges customers a fixed fee for enjoying the fitness services within a certain period of time. The fixed fee for fitness services is collected from customers by cash, EPS or credit card in one lump sum. During the relevant period, customers are allowed to have unlimited usage of the fitness services. On the other hand, customers with unexpired beauty packages can enjoy the fitness services at the service centres of the Group at HK\$20 per usage. One-off fitness usage is only available for customers of the Group with unexpired beauty packages.

The following table sets out the sales breakdown of the Group during the three years ended 31st March, 2005 and the four months ended 31st July, 2005 by prepaid beauty package sales, fixed fees and one-off consumption services:

	For the year ended 31st March,			Four months ended
	2003	2004	2005	31st July, 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepaid beauty package sales	291,314	344,686	414,923	134,276
Receipt of fixed fees	24,002	24,501	20,558	6,910
One-off consumption of services	<u>730</u>	<u>730</u>	<u>716</u>	<u>468</u>
Total gross sales for provision of beauty and healthcare services	<u>316,046</u>	<u>369,917</u>	<u>436,197</u>	<u>141,654</u>

The Group received certain complaints from customers regarding the booking of services which related mainly to booking for treatment at a specific time slot as well as booking a specified beautician to perform service. At all the material time, the Group has exercised reasonable judgment in selling

prepaid beauty packages to customers by considering the service capacity of its network of service centres to ensure that the prepaid beauty packages sold can be utilised within a reasonable period of time. The Group believes that it has enough capacity to deliver the services for the prepaid beauty packages sold within the validity period.

The Group reviews the capacity of its service centres regularly by comparing the estimated maximum capacity in providing treatments and the total amount of unexpired prepaid beauty packages. The above measure controls potential over-selling of prepaid beauty packages to new customers. For existing customers, the Group will take into account the amount of the existing unexpired prepaid beauty packages, the customers' feedbacks, and consumption behaviour of customers before selling to them any additional prepaid beauty packages.

During the three years ended 31st March, 2005 and the four month ended 31st July, 2005, the service capacity of the Group's service centres were not fully utilised with an estimated average idle capacity of approximately 25%. The average idle capacity for peak hours and non peak hours were approximately 18% and 36%, respectively. To increase the consumption rate of the prepaid beauty packages, since 2004, the Group has recruited more customer service and marketing staff to pro-actively contact customers and invite them to enjoy beauty-related treatment services during the non-peak hours. Moreover, the Group has also designed different types of prepaid beauty packages with special promotions to attract customers to receive the treatments in non-peak hours so as to increase the utilisation of service capacity.

Deferred revenue as at each of the three years ended 31st March, 2005 were approximately HK\$482.6 million, HK\$520.2 million and HK\$549.9 million, respectively. Sales attributable to provision of beauty and healthcare service and recognised in profit and loss account (excluding sales attributable to recognition of expired prepaid packages) were approximately HK\$308.3 million, HK\$325.2 million, HK\$377.8 million for the three years ended 31st March, 2005 respectively. The Group regularly monitors the ratio of deferred revenue to consumption in order to assess the service loading of the service centres. Based on the above information, the ratio for each of the three years ended 31st March, 2005 is 1.57, 1.60 and 1.46 respectively, which indicated that the Group has recently increased the service capacity in order to reduce the level of prepaid beauty packages. In fact, the Group opened more service centres with increasing average total gross floor areas from approximately 181,000 sq.ft. as at 31st March, 2003 to approximately 210,000 sq.ft. as at 31st March, 2005. For the purpose of avoiding the accumulation of excessive deferred revenue, the Group has adopted 1.80 as the maximum ratio of deferred revenue to consumption. In the event that the maximum ratio of 1.80 is met, the Group will control the sale of prepaid packages to customers.

The Group understands that many of its customers live or work in the New Territories. In response to their need for beauty and healthcare services locally, the Group already opened a Yuen Long branch and intends to open more branches in the New Territories to serve the customers. By

opening service centres in locations which most satisfy the needs of existing customers, the Group can maintain a high utilization rate of the prepaid beauty packages of existing customers whilst maintaining the growth of the Group in a healthy manner.

Expired prepaid beauty packages

For beauty-related services, including beauty and facial services, spa and massage services and slimming service, the Group normally charges customers by way of prepaid beauty packages. During the three years ended 31st March, 2005 and the four months ended 31st July, 2005, prepaid beauty packages sold by the Group amounted to approximately HK\$318.1 million, HK\$407.6 million, HK\$465.9 million and HK\$154.4 million, respectively. During the three years ended 31st March, 2005 and the four months ended 31st July, 2005, sales recognised from the provision of beauty and healthcare services to customers amounted to approximately HK\$308.3 million, HK\$325.2 million, HK\$377.8 million and HK\$128.3 million, respectively.

These prepaid beauty packages have a validity period of two years from date of purchase, which may be extended for one additional year at the discretion of the Group. For financial reporting purposes, prepaid beauty packages over three years from the date of purchase are fully recognised as sales.

The table below set out (i) the amount of profits attributable to the recognition of expired prepaid beauty packages and (ii) profits attributable to the recognition of expired prepaid beauty packages as percentage of the Group's net profits during the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively:

	Year ended 31st March,			Four months ended 31st July,
	2003	2004	2005	2005
Profit attributable to the recognition of expired prepaid beauty packages	HK\$7.8 million	HK\$44.8 million	HK\$58.4 million	HK\$13.3 million
As percentage of the Group's net profits	20.0%	72.8%	55.5%	39.0%

The Directors are of the view that a significant amount of expired prepaid beauty packages arise due to reasons including (i) customers tend to reserve treatments at peak hours (i.e. 12:00 noon to 2:00 p.m. and 6:00 p.m. to 10:00 p.m. from Monday to Friday, and all business hours on Saturday and Sunday); (ii) customers tend to reserve treatment for service centres at popular locations like Causeway Bay, Wanchai and Central; (iii) customers tend to select treatments which are "trendy" or "popular"; and (iv) the Group has a strong sales team with proactive sales strategy and promotional campaigns.

BUSINESS

Due to the above reasons, customers may not be able to reserve specified treatments at their desired time period and their demands of services cannot be met by the Group. As a result, some customers may choose to lodge complaints with the Hong Kong Consumer Council against the Group. There were approximately 83, 89, 61 and 27 complaints filed with the Hong Kong Consumer Council against the Group for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005. For each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, the Group received the following claims (including counterclaims) lodged by customers in courts in Hong Kong:

	For the year ended 31st March, 2003	For the year ended 31st March, 2004	For the year ended 31st March, 2005	For the four months ended 31st July, 2005
Number of claims in small claims tribunal in Hong Kong	13	12	13	6
Number of claims in Hong Kong District Court	Nil	2	1	Nil
Number of claims and counterclaims in Hong Kong High Court	Nil	3	Nil	Nil

Large amount of deferred revenue

For beauty-related services, including beauty and facial services, spa and massage services and slimming service, the Group normally charges customers by way of prepaid beauty packages.

These prepaid beauty packages are recorded as deferred revenue in the balance sheet at the point of sales and have a validity period of two years, which may be extended for one additional year at the discretion of the Group. For financial reporting purposes, prepaid beauty packages are recognised as sales from time to time in the profit and loss account when the service treatments are delivered to customers. Prepaid beauty packages over three years from the date of purchases are also fully recognised as sales. The Group's recognition method results in large amount of deferred revenue. As at 31st March, 2003, 2004, 2005 and 31st July, 2005, deferred revenue of the Group amounted to approximately HK\$482.6 million, HK\$520.2 million, HK\$549.9 million and HK\$562.7 million, respectively. The deferred revenue represented the major source of funding of the Group to finance its operational cashflow. The ratio of deferred revenue to sales attributable to provision of beauty and healthcare services for each of the three years ended 31st March, 2005 were approximately 1.57, 1.60, and 1.46, respectively. The ratio increased from 1.57 in 2003 to 1.60 in 2004 which indicated that the rate of growth of deferred revenue was faster than the rate of growth in sales attributable to provision of beauty and healthcare services. With the aggressive sales promotion, additional receipts from customers rose significantly from approximately HK\$318.1 million in 2003 to approximately HK\$407.6 million in 2004, which out-rated the total increase in sales attributable to provision of beauty and healthcare services from approximately HK\$308.3 million in 2003 to approximately

HK\$325.2 million in 2004 arose from the increase of gross floor area from an average total gross floor area of approximately 181,000 sq.ft. in 2003 to approximately 184,000 gross sq.ft. in 2004 and the increase sales attributable to the recognition of expired prepaid beauty packages from approximately HK\$7.8 million in 2003 to approximately HK\$44.8 million in 2004.

The ratio decreased from 1.60 in 2004 to 1.46 in 2005 which indicated that the rate of growth of deferred revenue was slower than the rate of growth in sales attributable to provision of beauty and healthcare services. With the significant increase in gross floor area from an average total gross floor area of approximately 184,000 sq.ft. in 2004 to approximately 210,000 sq.ft. in 2005, the sales for provision of beauty and healthcare services increased significantly from approximately HK\$325.2 million in 2004 to approximately HK\$377.8 million in 2005. Together with the increase in the sales attributable to the recognition of expired prepaid packages amounted to approximately HK\$44.8 million in 2004 to approximately HK\$58.4 million in 2005, this has exceeded the increase in additional receipts from customers from approximately HK\$407.6 million in 2004 to approximately HK\$465.9 million in 2005 arose from the growth in gross floor area. Please refer to note 17 in Appendix I to this prospectus for movement of deferred revenue during the three years ended 31st March, 2005 and the four months ended 31st July, 2005.

Should these prepaid beauty packages not be utilised by customers within their validity period, they will be fully recognised as sales in accordance with the Group's recognition policy. In such case, owners of these expired prepaid packages will not be entitled to enjoying services of the Group.

SALES RECEIPT CONTROL AND MANAGEMENT POLICY

Most of the Group's customers settle the purchases of services or products by credit cards or Easy Pay System ("EPS"). All popular types of credit cards are accepted by the Group's service centres. The Group has co-operated with a number of banks which agree to grant interest-free monthly instalment plans, ranging from six months to twenty-four months, to their cardholders for purchasing the Group's services and products. Settlement by cash or cheque is also accepted. During each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, cash receipt through credit card and EPS amounted to approximately HK\$323.1 million, HK\$395.2 million, HK\$457.5 million and HK\$151.6 million, respectively, representing approximately 97.0%, 96.8%, 96.6% and 96.6% while cash receipt in cash and cheque were approximately HK\$9.9 million, HK\$13.0 million, HK\$16.2 million and HK\$5.3 million, respectively, representing approximately 3.0%, 3.2%, 3.4% and 3.4%, respectively. A designated team from the Group's finance department visits the service centres on the following working day to verify the daily sales and receipts. All credit card sales slips, credit card instalment plan application forms, cash sales receipts and other appropriate documents are checked against the daily sales summaries generated from credit card machines, EPS terminals, cash books, as well as the detailed sales reports of the CASM. All discrepancies are required to be rectified immediately with the service centre manager. Actual cash receipts from sales must be deposited to the bank account on the next business day. The credit card slips, credit card instalment plan application forms, bank-in slips and other appropriate documents are then sent back to the finance department for customer information verification and checking. The finance department will also carry out both daily

and monthly bank reconciliation to ensure all the Group's proceeds arose from the credit card and EPS sales are completely and accurately transferred to the Group's designated bank accounts from the banks. Losses arising from credit card and cash sales during the three years ended 31st March, 2005 and the four months ended 31st July, 2005 are nil.

SALES, MARKETING AND PROMOTION

The Group promotes its beauty and healthcare services by offering prepaid beauty package 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 31st March, 2003, 2004, 2005 and 31st July, 2005, the accumulated prepaid beauty packages amounted to approximately HK\$482.6 million, HK\$520.2 million, HK\$549.9 million and HK\$562.7 million, respectively. Customers enjoy the prepaid treatment courses by making beauty and healthcare service appointment at the Group's service centres. These prepaid beauty packages of treatment courses are normally sold with an expiry period of two years from the date of purchase which may be extended for one more year at the discretion of the Group, and are non-refundable unless special approval is granted by the senior management of the Group.

The Group's sales, marketing and promotional campaigns are carried out by its marketing department, sales department, public relation department and advertising department. The Group had also engaged independent marketing consulting companies to promote the Group's services and products by carrying out direct sales and road show activities. These direct sale services and road show activities are carried out by staff of the marketing consulting companies. The commission paid to them is mainly based on the number of customers they recruited as well as the sales amount they have achieved. The advertising expenses incurred for the three years ended 31st March, 2005 and the four months ended 31st July, 2005 amounted to approximately HK\$6.5 million, HK\$22.9 million, HK\$29.8 million and HK\$8.8 million, respectively.

During special promotional period such as Christmas holiday or Opening Day of new service centres, the Group may consider offering promotional discounts to its customers. The Group may also offer discounts to its customers on the basis of bulk purchase of treatments or products, the customer's category in the customer scheme and the popularity of the products or treatments. Regarding the extension of the validity period of prepaid beauty packages, the Group will review on a case-by-case basis the grounds submitted by the relevant customer and accept such request only when it is justified. Grounds which have been accepted by the Group for extension of the validity period of prepaid packages include study abroad, long vacation, temporary illness, physical injury or relocation of working area.

In order to avoid the accumulation of excessive deferred revenue, the Group will, on a regular basis, monitor the total amount of deferred revenue against the maximum capacity that the service centres can serve the customers. The control mechanism includes, but is not limited to, monitoring the salary incentives through adjusting the rate of bonus paid to the frontline staff for sales of prepaid packages, as compared to the provision of service to the customers. In addition, the serving capacities

can also be adjusted through opening and closing of service centres. The Group will also have its own internal treasury policy, cost control and staff training policy to ensure that the Group has adequate financial and human resources so that the remaining deferred revenue can well cover the future cost to be incurred when the underlying services are delivered in the future.

The Group carries out annual budgeting for its advertising and promotion expenses based on factors including:

- historical data analysis regarding the cost and effectiveness of each of the advertising media;
- advertisement and promotion activities made by competitors; and
- sales target to be achieved by the Group in the next year.

On a monthly basis, the Group reviews the cost and effectiveness of the advertising expenses and consider whether revision to the advertising expenses in the coming months is necessary.

With increasing advertising and promotion activities, the Group has brought in approximately 11,000, 18,000, 17,000 and 8,000 new customers for the three years ended 31st March, 2005 and four months ended 31st July, 2005, respectively.

Marketing department

The Group's marketing department is mainly responsible for the formulation of marketing strategy and implementation of marketing activities. It aims to promote the Group's services and products and broaden its clientele. Marketing channels employed by the Group in the past include the following:

- 1) Participating in exhibitions;
- 2) Organising road shows in popular shopping arcades or in the streets such as pedestrian zones in Causeway Bay and Mongkok in Hong Kong;
- 3) Promoting the Group's services and products by issuing free treatment/skincare products coupons, which were distributed by business organisations like hotels, travel agents and jewellers;
- 4) Organising various functions and activities such as slimming competition and "Female Health Check Programme (女性保健計劃)" to enhance public awareness of beauty and health;
- 5) Appointing celebrities including Ms. Choi Siu Fan Ada (蔡少芬小姐), Ms. Cheng Sau Man (鄭秀文小姐), Ms. Cheung Man (張敏小姐), Ms. Tsang Po Yee Bowie (曾寶儀小姐) and Ms. Cheung Yui Ling (張睿玲小姐) as the Group's spokespersons;

- 6) Operating and maintaining the website of the Group at <http://www.modernbeautysalon.com> which contains details of the Group's services and products, offers and promotions; and
- 7) Formulating and implementing different marketing programmes such as "Customers Refer Customers" programme in service centres of the Group.

Sales department

The Group's sales department comprises two divisions, namely existing customers team ("ECT") and new customers team ("NCT"). The ECT is mainly responsible for serving existing customers to take care of their needs while the NCT focuses on attracting new customers.

The ECT is led by senior management. By stationing at the Group's service centres, the ECT can better understand customers' needs and establish a close relationship with customers, which can facilitate the sales executives to serve the customers' needs, to market and promote the Group's services and products as well as seasonal promotional offers to the existing customers.

The NCT mainly focuses on attracting new customers by analysing the information obtained from marketing activities and formulating market strategy to, among others, offer popular beauty and healthcare services. In order to provide more flexibility on the payment methods, the team has negotiated with various banks and financial institutes for various interest-free installment programmes. These interest-free installment programmes are operated by various credit card issuing banks for its credit card holders and the role of the Group is participating as supplier/merchant for provision of beauty and healthcare services for the credit cardholders (customers/purchasers). Upon approval of the installment programmes application by the relevant bank, the bank will pay a lump sum payment in the amount of the goods/services purchased to the Group less bank charges ranging from 3.0% to 7.6%, which will be the full and final settlement of the liabilities of the purchaser/customer. Promotional offers are arranged to new customers in special events such as launching of new beauty service line and the opening of new service centres.

Public relation department

The Group's public relation department aims to promote the Group's prestige and image which in turn enhances the Group's brandname. Channels employed by the Group in the past include: 1) attending and participating in charitable functions and events such as South Asia earthquake and tsunami; 2) establishing and maintaining close and sound relationship with the media; and 3) arranging press interviews.

Advertising department

The Group's advertising department is led by an art director and consists of professional graphic designers, copywriters and photographers. The advertising department aims to provide prompt responses to the fierce competitive environment. The Group allocates significant amount of resources to advertising activities every year. Advertising channels employed include 1) producing and placing

advertisements in major television and radio channels in Hong Kong; 2) producing and placing advertisements in the press in Hong Kong; and 3) producing and arranging outdoor and large-scale banner display on exterior walls of buildings.

Strategy for increasing penetration into existing market

The Group will open additional service centres in Hong Kong especially in the New Territories to attract new customers.

Apart from the core beauty services, the Group will continue to develop more varieties of beauty and healthcare services to meet customers' needs such as men's beauty, manicure and foot reflexology.

The Group will spend more resources on the advertising and promotional activities to increase the public awareness of the Group's services and products and further strengthen the Group's brand image.

CUSTOMER SCHEME

The Group maintains a customer scheme to enhance customer loyalty. The Group's target customers are from medium-to-high income group including office ladies and females from upper class society. The Group classified its customers into eight classes, namely Black Diamond, Pink Diamond, Diamond, Platinum, Gold (also called VIP), Spa Card, Ordinary and Fitness. The Group offers different types of privileged benefits to these eight classes of customers from time to time, and the privileged benefits offered as at the Latest Practicable Date are set out below:

Customer class for beauty-related and fitness services

Privileged benefits offered

Black Diamond

- Use of the top class VIP rooms
- Tailor-made bathrobe with customer's name
- With complimentary card
- Jet bath and hand wax treatment for each visit
- Health food or snack
- Welcome gifts
- Black Diamond booking hotlines
- 50% discounts for purchase of beauty products

Pink Diamond

- Use of VIP rooms
- Use of massage chair or New Slim Press
- Jet bath and hand wax treatment for each visit
- Health food or snack
- Pink Diamond booking hotlines
- 50% discounts for purchase of beauty products

Customer class for beauty-related and fitness services	Privileged benefits offered
Diamond	<ul style="list-style-type: none">● Use of VIP rooms● Jet bath for each visit● Diamond booking hotlines● 35% discounts for purchase of beauty products
Platinum	<ul style="list-style-type: none">● Provide free towel and shower cap● Sauna or steam bath● 40% discounts for purchase of beauty products
Gold (also called VIP)	<ul style="list-style-type: none">● Provide free towel and shower cap● Sauna or steam bath● 25% discounts for purchase of beauty products
Spa Card	<ul style="list-style-type: none">● Use of spa products (natural products)● Sauna or steam bath● Jet bath for each visit● 25% discounts for purchase of beauty products
Ordinary	<ul style="list-style-type: none">● Sauna or steam bath● Slippers are provided● 10% discounts for purchase of beauty products
Fitness	<ul style="list-style-type: none">● Unlimited usage of the fitness services during the relevant period

Privileged benefits offered may change from time to time for marketing purposes.

PURCHASES

The Group's purchase department is responsible for selecting, negotiating and placing orders with suppliers for the supply of beauty products. There are standard purchasing procedures to ensure that the purchases are made in an efficient and cost effective manner. The Group sources the above products from third party suppliers in overseas countries including Europe and Australia. The Group has its own quality control staff to perform test on delivery of the goods by the suppliers. From time to time the Group will appraise suppliers by various factors, including the quality of the goods supplied (as revealed by the test report of the Group's quality control staff and from the customers' feedback), the competitiveness of the price as compared to other suppliers and the punctuality of delivery. As there are abundant choices of suppliers in the market, the Group has, as at the Latest Practicable Date, not experienced any major problems in the purchasing process.

Total purchases (including beauty products, materials and equipment) of the Group amounted to approximately HK\$4.5 million, HK\$10.7 million, HK\$13.6 million and HK\$7.2 million for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, representing approximately 1.3%, 2.8%, 3.0% and 4.8% of the Group's sales during the respective years/period.

For each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, the Group's largest supplier for the respective year accounted for approximately 15.9%, 13.9%, 8.9% and 33.9% of the Group's total purchases, respectively. During the same period, the Group's five largest suppliers in aggregate accounted for approximately 49.4%, 48.6%, 33.7% and 56.3% of the Group's total purchases, respectively. Save as disclosed in the section headed "Further information about the directors, management, staff, substantial shareholders and experts" in Appendix V to this prospectus, none of the Directors or any shareholder, who to the knowledge of the Directors, owns more than 5% of the share capital of the Company immediately following completion of the Share Offer (but without taking into account Shares taken up under the Share Offer and upon the exercise of the Over-allotment Option) nor any of their respective associates has any interest in any of the five largest suppliers of the Group for the three years ended 31st March, 2005 and the four months ended 31st July, 2005. Local purchases are mainly made in cash on delivery basis or by credit sales with credit period of around 30 days. Overseas purchases are mainly settled by letter of credit or telegraphic transfer with no credit period terms. For the three years ended 31st March, 2005 and the four months ended 31st July, 2005, approximately 73.4%, 55.6%, 51.3% and 52.9% of the Group's purchases were settled in Hong Kong dollars and the remaining approximately 26.6%, 44.4%, 48.7% and 47.1% were settled in US dollars, Euro, British Pound or Australian dollar. The Directors consider that, comparing to its sales, the Group's purchases amount in foreign currency is not significant and therefore the current exposure to foreign currency fluctuation has an insignificant impact on the operating results of the Group. Accordingly, the Group has not adopted any hedging policies against the fluctuation of foreign currency and the Directors considered that the fluctuation of foreign currency is not a material risk to the Group.

The top five suppliers have business relationships with the Group ranging from one year to nine years. The Directors believe that the Group has maintained good business relationships with all of its suppliers and, as at the Latest Practicable Date, the Group has not experienced any major problems in sourcing suppliers despite the fact that the Group has not entered into any long-term supply contracts with its suppliers.

OPERATION OF SERVICE CENTRES

As at the Latest Practicable Date, the Group operated 15 service centres in Hong Kong. These service centres are of gross floor area ranging from approximately 7,000 sq.ft. 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. which offers foot massage service under the tradename "**Moment of serenity** 休閒空間" and offer various types of beauty and facial services. These service centres are managed by shop managers supported by operation managers and other administration staff. Staff specialised in different beauty and healthcare services are assigned to these centres according to the services provided in those centres. These specialists include beauty consultants, beauticians, makeup-artists, hair stylists,

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manicurists, body masseuse, foot masseuse, Thai body masseuse, slim beauticians, aromatherapists nutritionists and fitness instructors. The Group also engages medical practitioners and aerobic instructors as independent contractors to provide advice to customers at the service centres. Depending on the demand of services and location, operating hours of each service centre vary.

The table below set out locations of the Group's service centres in Hong Kong and the nature of services offered:

	Address	District	Nature of services provided				Expiry of lease
			Beauty and facial	Spa and massage	Slimming	Fitness	
1	2nd Floor 971 King's Road King's House Quarry Bay	Hong Kong Island	✓	✓	✓		1st January, 2009
2	20th Floor New York Life Tower (Windsor House) 311 Gloucester Road Causeway Bay	Hong Kong Island	✓	✓	✓	✓	14th February, 2006
3	10th to 11th Floors Causeway Bay Plaza Phase 2 463-483 Lockhart Road Causeway Bay	Hong Kong Island	✓	✓	✓		15th July, 2007
4	17th Floor Paliburg Plaza 68 Yee Wo Street Causeway Bay	Hong Kong Island	✓	✓	✓		23rd May, 2008
5	16th Floor Hopewell Centre 183 Queen's Road East Wanchai	Hong Kong Island	✓	✓	✓		14th May, 2007
6	Shop nos. 1-41 on Ground Floor of the Podium Admiralty Centre 18 Harcourt Road Admiralty	Hong Kong Island	✓	✓	✓	✓	17th May, 2006

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	Address	District	Nature of services provided				Expiry of lease
			Beauty and facial	Spa and massage	Slimming	Fitness	
7	2nd to 6th Floors Asia Standard Tower 59-65 Queen's Road Central Central	Hong Kong Island	✓	✓	✓	✓	7th December, 2006
8	2nd to 3rd Floors L&D House 2, 2A, 4 and 4A Cameron Road Tsimshatsui	Kowloon	✓	✓	✓		10th April, 2006
9	Shop Units 2B3 on the 2nd Basement Floor and Shops 3B1-3 on the 3rd Basement Floor Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui	Kowloon	✓	✓	✓		17th May, 2008
10	Shop Unit 1B3 on the 1st Basement Floor Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui	Kowloon	✓	✓	✓	✓	17th May, 2008
11	12th Floor Park-In Commercial Centre 56 Dundas Street Mongkok	Kowloon	✓	✓	✓	✓	31st January, 2007
12	1st Floor to 3rd Floors No. 655 Nathan Road Mongkok	Kowloon	✓	✓	✓		10th October, 2006
13	13th Floor & 15th Floor Emperor Plaza No. 55 Chung On Street Tsuen Wan	New Territories	✓	✓	✓		9th September, 2007

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Address	District	Nature of services provided				Expiry of lease
		Beauty and facial	Spa and massage	Slimming	Fitness	
14. Shop 1 on Ground Floor and 1st Floor Len Fat Mansion Nos. 56-60, 64-86 Kin Yip Street Yuen Long	New Territories		√			N/A
15. 1st Floor No. 46 Carnarvon Road Tsimshatsui Kowloon	Kowloon	√	√			31st December, 2008

Out of the 15 service centres of the Group, 13 service centres are leased under 13 tenancy agreements entered into with Independent Third Parties in Hong Kong. Out of these tenancy agreements, one will expire in the year ending 31st March, 2006, five will expire in the year ending 31st March, 2007 and three will expire in the year ending 31st March, 2008 and four will expire in the year ending 31st March, 2009. In respect of the one tenancy agreement which will expire in the year ending 31st March, 2006, the Group currently intends to renew the agreement upon its expiration. The Group is currently negotiating the lease term of the agreement with the landlord. Out of the 13 tenancy agreements, eight include option to renew upon expiry of tenancies.

The rental expenses for the Group's service centres in Hong Kong for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005 represented approximately 16.6%, 12.6%, 9.2% and 10.2%, respectively, of the Group's sales and approximately 19.6%, 15.7%, 12.9% and 13.7%, respectively, of the total operating expenses (namely staff costs, depreciation and amortisation, occupancy costs and other operating expenses) of the Group.

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The Group plans to open the following four service centres in the first half of 2006:

	Address	District	Expiry of lease
1	Shop Nos. A and B on the Lower Ground Floor Far East Finance Centre No. 16 Harcourt Road Admiralty Hong Kong	Hong Kong Island	31st October, 2011
2	Shop C on Ground Floor Lai Ming House Nos. 54-58 Tai Wai Road Tai Wai Shatin New Territories	New Territories	2nd January, 2009
3	3rd Floor Shun Shing Building No. 6 Yan Ching Street Tuen Mun New Territories	New Territories	14th December, 2008
4	13th Floor Paliburg Plaza No. 68 Yee Wo Street Causeway Bay Hong Kong	Hong Kong Island	14th May, 2009

The Group's current network of service centres is under its own operation. In view of the recognition of the Group's brandname in the industry, the Group will explore the idea of co-operation with or granting franchise to business partners. The mode of co-operation/franchise may include (i) business referral and profit sharing; (ii) franchise with marketing support; or (iii) franchise without marketing support. As at the Latest Practicable Date, the Group has not formulated any detailed plans in relation to the mode of co-operation or franchise nor has identified any concrete business partners or entered into any binding agreements or conducted any concrete negotiation. Nevertheless, the Directors consider that the co-operation/franchise mode of operation will not be a significant mode of operation of the Group in the near future should such mode of operation be materialised. The Directors also expected that there would be no significant or material development in relation to co-operation with or granting franchise to business partners in the near future. The Directors also advised that the mode of co-operation/franchise may or may not be adopted, subject to negotiation between the Group and the relevant business partners, if any.

QUALITY CONTROL

The Directors believe that professional knowledge and expertise of frontline staff is critical to the provision of quality services to customers. The Group installs advanced equipment at service centres to provide beauty and healthcare services to customers. Training courses in relation to functions, operation, safety precautions of equipment are provided by suppliers of this equipment from time to time.

The Group operates the Beauty Expert International College to provide professional training courses to its frontline beauty staff and the public. Training courses provided at the college include diploma in beauty therapy, aestheticienne diploma (facial therapy), beauty specialist diploma, beauty specialist certificate, diploma in physiatrics, diploma in anatomy, physiology and massage, diploma in anatomy and physiology theory, Certificate in Lymphatic Drainage (淋巴引流全身按摩證書), Certificate in Indian Head Massage (印式頭部按摩證書), Certificate in Make-up (專業化妝師證書). The college is a CIBTAC school which offers CIBTAC recognised courses including the aesthetic treatments, anatomy and physiology, aromatherapy, body electrical treatments, body massage, body therapy, facial electrical treatments, manual lymph drainage, reflexology and skin treatments.

The Group's service centre at 16th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong was awarded the ISO9001:2000 Quality Management System by the British Standards Institution in the scope of the design and provision of facial and slimming services, and the provision of spas and body massage services in April 2005. The Group has established a quality assurance management system in accordance with the ISO requirements.

The Group also sets up a customer service hotline and issues an internal guideline for handling of customer's feedback and complaints.

To ensure high standard of service, the Group assesses and reviews the performance of its frontline beauty staff by undertaking internal appraisal through internal tests and examinations to assess the service skill and knowledge possessed by the staff periodically. In addition, the Group will also review the staff's attendance and punctuality which are critical attributes for the servicing industry. Customers are requested to fill out service assessment forms after receiving services at service centres and these feedbacks also form an important criterion for assessment process.

The Group rewards its frontline beauty staff in the form of basic salaries and discretionary bonuses. The consideration for granting of discretionary bonuses includes, but is not limited to, factors such as number of prepaid beauty packages sold by the staff, number of service treatments provided to customers and their involvement in providing internal training to other frontline beauty staff.

Prior to the engagement of independent contractors who provide services and advice such as slimming and photofacial services, among other things, their professional experience would be considered and drill performance will be conducted. After engagement, the Group will monitor and assess the capability and performance of such independent contractors from time to time by collecting customer feedbacks of their services and observation of their services by the staff of the Group.

CUSTOMER FEEDBACK AND COMPLAINT MANAGEMENT

Due to the service nature of its business, the Group may receive customer's feedback or complaints from time to time. The Group adopts a proactive approach to handle customer's feedback and complaints to ensure that each complaint is dealt with properly and promptly.

The following tables set out the breakdown of customer complaints lodged in the courts in Hong Kong and the Hong Kong Consumer Council by location of the service centres:

For the year ended 31st March, 2003					
Address	District	Number of complaints filed with the Hong Kong Consumer Council	Number of claims in Hong Kong small claims tribunal	Number of claims in Hong Kong District Court	Number of claims and counterclaims in Hong Kong High Court
No. A Lower G/F Far East Finance Centre 16 Harcourt Rd Admiralty <i>(Note)</i>	Hong Kong Island	2	Nil	Nil	Nil
Shop nos. 1-41 on Ground Floor of the Podium Admiralty Centre 18 Harcourt Road	Hong Kong Island	14	Nil	Nil	Nil
2nd to 6th Floor Asia Standard Tower 59-65 Queen's Road Central Central	Hong Kong Island	7	2	Nil	Nil
1-2/F On Hing Bldg 1 On Hing Terrace 1-9 Wyndham Street Central <i>(Note)</i>	Hong Kong Island	10	Nil	Nil	Nil
2/F HK Chinese Bank Causeway Bay Centre 42-44 Yee Wo Street Causeway Bay <i>(Note)</i>	Hong Kong Island	2	Nil	Nil	Nil
Shop 201-4 2/F Paliburg Plaza Phase I 68 Yee Wo St Causeway Bay <i>(Note)</i>	Hong Kong Island	7	1	Nil	Nil

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For the year ended 31st March, 2003

Address	District	Number of complaints filed with the Hong Kong Consumer Council	Number of claims in Hong Kong small claims tribunal	Number of claims in Hong Kong District Court	Number of claims and counterclaims in Hong Kong High Court
20th Floor New York Life Tower (Windsor House) 311 Gloucester Road Causeway Bay	Hong Kong Island	9	3	Nil	Nil
16/F Chong Hing Square No 601 Nathan Road Mongkok <i>(Note)</i>	Kowloon	Nil	1	Nil	Nil
3/F Chong Hing Square No 601 Nathan Road Mongkok <i>(Note)</i>	Kowloon	13	Nil	Nil	Nil
G/F & Basement Floor Full Win Commercial Centre 573 Nathan Road Mongkok <i>(Note)</i>	Kowloon	4	1	Nil	Nil
AR3 Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui <i>(Note)</i>	Kowloon	Nil	1	Nil	Nil
Shop Unit 1B3 on the 1st Basement Floor Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui	Kowloon	5	2	Nil	Nil
2nd to 3rd Floor L&D House 2, 2A, 4 and 4A Cameron Road Tsimshatsui	Kowloon	8	2	Nil	Nil
1st Floor No. 46 Carnarvon Road Tsimshatsui Kowloon	Kowloon	2	Nil	Nil	Nil
		—————	—————	—————	—————
		<u>83</u>	<u>13</u>	<u>Nil</u>	<u>Nil</u>

Note: As at the Latest Practicable Date, the shop was closed due to the expiry of its tenancy agreement.

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For the year ended 31st March, 2004

Address	District	Number of complaints filed with the Hong Kong Consumer Council	Number of claims in Hong Kong small claims tribunal	Number of claims in Hong Kong District Court	Number of claims and counterclaims in Hong Kong High Court
No. A Lower G/F Far East Finance Centre 16 Harcourt Rd Admiralty <i>(Note)</i>	Hong Kong Island	6	Nil	Nil	Nil
Shop nos. 1-41 on Ground Floor of the Podium Admiralty Centre 18 Harcourt Road	Hong Kong Island	9	3	Nil	Nil
2nd to 6th Floor Asia Standard Tower 59-65 Queen's Road Central Central	Hong Kong Island	3	Nil	Nil	Nil
1-2/F On Hing Bldg 1 On Hing Terrace 1-9 Wyndham Street Central <i>(Note)</i>	Hong Kong Island	5	2	1	Nil
2/F HK Chinese Bank Causeway Bay Centre 42-44 Yee Wo Street Causeway Bay <i>(Note)</i>	Hong Kong Island	1	Nil	Nil	Nil
Shop 201-4 2/F Paliburg Plaza Phase I 68 Yee Wo St Causeway Bay <i>(Note)</i>	Hong Kong Island	3	Nil	Nil	Nil
20th Floor New York Life Tower (Windsor House) 311 Gloucester Road Causeway Bay	Hong Kong Island	8	2	Nil	3
3/F Chong Hing Square No 601 Nathan Road Mongkok <i>(Note)</i>	Kowloon	15	Nil	Nil	Nil

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For the year ended 31st March, 2004

Address	District	Number of complaints filed with the Hong Kong Consumer Council	Number of claims in Hong Kong small claims tribunal	Number of claims in Hong Kong District Court	Number of claims and counterclaims in Hong Kong High Court
G/F & Basement Floor Full Win Commercial Centre 573 Nathan Road Mongkok <i>(Note)</i>	Kowloon	Nil	1	1	Nil
1st Floor to 3rd Floor Wu Sang House No. 655 Nathan Road Mongkok	Kowloon	5	Nil	Nil	Nil
AR3 Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui <i>(Note)</i>	Kowloon	3	Nil	Nil	Nil
Shop Unit 1B3 on the 1st Basement Floor Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui	Kowloon	12	1	Nil	Nil
2nd to 3rd Floor L&D House 2, 2A, 4 and 4A Cameron Road Tsimshatsui	Kowloon	13	1	Nil	Nil
1st Floor No. 46 Carnarvon Road Tsimshatsui Kowloon	Kowloon	1	Nil	Nil	Nil
Shop C G/F & 1/F Shui Sang Building Nos 13-19 Chung On Street Tsuen Wan <i>(Note)</i>	New Territories	5	2	Nil	Nil
		89	12	2	3

Note: As at the Latest Practicable Date, the shop was closed due to the expiry of its tenancy agreement.

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For the year ended 31st March, 2005

Address	District	Number of complaints filed with the Hong Kong Consumer Council	Number of claims in Hong Kong small claims tribunal	Number of claims in Hong Kong District Court	Number of claims and counterclaims in Hong Kong High Court
Shop nos. 1-41 on Ground Floor of the Podium Admiralty Centre 18 Harcourt Road	Hong Kong Island	8	1	Nil	Nil
2nd to 6th Floor Asia Standard Tower 59-65 Queen's Road Central Central	Hong Kong Island	5	3	Nil	Nil
1-2/F On Hing Bldg 1 On Hing Terrace 1-9 Wyndham Street Central <i>(Note)</i>	Hong Kong Island	2	1	Nil	Nil
10th to 11th Floor Causeway Bay Plaza Phase II 463-483 Lockhart Road Causeway Bay	Hong Kong Island	1	Nil	Nil	Nil
Shop 201-4 2/F Paliburg Plaza Phase I 68 Yee Wo St Causeway Bay <i>(Note)</i>	Hong Kong Island	1	1	Nil	Nil
20th Floor New York Life Tower (Windsor House) 311 Gloucester Road Causeway Bay	Hong Kong Island	7	2	Nil	Nil
2nd Floor King's House 971 King's Road Quarry Bay	Hong Kong Island	5	Nil	Nil	Nil
16th Floor Hopewell Centre 183 Queen's Road East Wanchai	Hong Kong Island	3	Nil	Nil	Nil

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For the year ended 31st March, 2005

Address	District	Number of complaints filed with the Hong Kong Consumer Council	Number of claims in Hong Kong small claims tribunal	Number of claims in Hong Kong District Court	Number of claims and counterclaims in Hong Kong High Court
12th Floor Park-In Commercial Centre 56 Dundas Street Mongkok	Kowloon	9	1	Nil	Nil
G/F & Basement Floor Full Win Commercial Centre 573 Nathan Road Mongkok (<i>Note</i>)	Kowloon	Nil	1	Nil	Nil
1st Floor to 3rd Floor Wu Sang House No. 655 Nathan Road Mongkok	Kowloon	9	Nil	Nil	Nil
AR3 Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui (<i>Note</i>)	Kowloon	2	1	Nil	Nil
Shop Unit 1B3 on the 1st Basement Floor Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui	Kowloon	4	1	Nil	Nil
2nd to 3rd Floor L&D House 2, 2A, 4 and 4A Cameron Road Tsimshatsui	Kowloon	2	1	1	Nil
Shop C G/F & 1/F Shui Sang Building Nos 13-19 Chung On Street Tsuen Wan (<i>Note</i>)	New Territories	3	Nil	Nil	Nil
		61	13	1	Nil

Note: As at the Latest Practicable Date, the shop was closed due to the expiry of its tenancy agreement.

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For the four months ended 31st July, 2005

Address	District	Number of complaints filed with the Hong Kong Consumer Council	Number of claims in Hong Kong small claims tribunal	Number of claims in Hong Kong District Court	Number of claims and counterclaims in Hong Kong High Court
Shop nos. 1-41 on Ground Floor of the Podium Admiralty Centre 18 Harcourt Road	Hong Kong Island	2	1	Nil	Nil
2nd to 6th Floor Asia Standard Tower 59-65 Queen's Road Central Central	Hong Kong Island	5	Nil	Nil	Nil
17th Floor Paliburg Plaza 68 Yee Wo Street Causeway Bay	Hong Kong Island	1	Nil	Nil	Nil
20th Floor New York Life Tower (Windsor House) 311 Gloucester Road Causeway Bay	Hong Kong Island	2	1	Nil	Nil
2nd Floor King's House 971 King's Road Quarry Bay	Hong Kong Island	1	Nil	Nil	Nil
16th Floor Hopewell Centre 183 Queen's Road East Wanchai	Hong Kong Island	2	2	Nil	Nil
12th Floor Park-In Commercial Centre 56 Dundas Street Mongkok	Kowloon	8	Nil	Nil	Nil
1st Floor to 3rd Floor Wu Sang House No. 655 Nathan Road Mongkok	Kowloon	1	1	Nil	Nil

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For the four months ended 31st July, 2005

Address	District	Number of complaints filed with the Hong Kong Consumer Council	Number of claims in Hong Kong small claims tribunal	Number of claims in Hong Kong District Court	Number of claims and counterclaims in Hong Kong High Court
Shop Unit 1B3 on the 1st Basement Floor Hotel Miramar Shopping Arcade 118-130 Nathan Road Tsimshatsui	Kowloon	2	Nil	Nil	Nil
2nd to 3rd Floor L&D House 2, 2A, 4 and 4A Cameron Road Tsimshatsui	Kowloon	1	1	Nil	Nil
Shop C G/F & 1/F Shui Sang Building Nos 13-19 Chung On Street Tsuen Wan (<i>Note</i>)	New Territories	2	Nil	Nil	Nil
		_____	_____	_____	_____
		<u>27</u>	<u>6</u>	<u>Nil</u>	<u>Nil</u>

Note: As at the Latest Practicable Date, the shop was closed due to the expiry of its tenancy agreement.

Customer congestion occurred at the following service centres:

1. 2nd to 6th Floor, Asia Standard Tower, 59-65 Queen's Road Central, Hong Kong;
2. 10th to 11th Floor, Causeway Bay Plaza Phase II, 463-483 Lockhart Road, Causeway Bay, Hong Kong;
3. 20th Floor, New York Life Tower (Windsor House), 311 Gloucester Road, Causeway Bay, Hong Kong;
4. 17th Floor, Paliburg Plaza, 68 Yee Wo Street, Causeway Bay, Hong Kong; and
5. 16th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

The Group implements various channels for customer's feedback: (i) customer service hotline; (ii) customer service department at the Group's principal office in Hong Kong; (iii) customer comment form available at all service centres of the Group; (iv) feedback to manager or staff at service centres; (v) customer's comment received in collection box located at each service centre; and (vi) direct complaints to senior management.

Feedback from customers received by the Group in the past is usually related to one of the following areas:

- difficulty in booking for treatment at a specific time slot
- difficulty in booking a specified beautician to perform service
- attitude of sales staff
- refund for prepayment made
- physical injury due to services provided by the Group
- miscommunication between the Group's staff and the customer

"Refund for prepayment made" usually involves request for refund for various reasons including (i) difference between the effects of the services and the expectations of the customers; (ii) impulse or spontaneous purchases; (iii) objections by family members; (iv) subsequent financial problems; or (v) regret for over spending. The Group has made refund of prepaid service packages to relevant customers in the amount of approximately HK\$139,000, HK\$229,000, HK\$138,000 and HK\$143,000 for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively. Subsequent to 31st July, 2005 and up to the Latest Practicable Date, the Group has made refund of prepaid service packages in the amount of approximately HK\$432,280. "Physical injury due to services provided by the Group" usually involves excessive energy or heat applied to skin by the various beauty equipment, bruises or twist of ankles or other parts caused by massage treatments. The compensation paid to relevant customers for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005 was approximately nil, HK\$17,000, HK\$21,000 and HK\$40,000, respectively. Subsequent to 31st July, 2005 and up to the Latest Practicable Date, compensation paid by the Group was approximately HK\$3,100.

Some of the complaints received from the customers of the Group have been substantiated into claims and litigation made against the Group. Details regarding litigation and claims in which the Group is involved are set out under the paragraphs headed "Customer complaints and litigation" and "Services rendered by independent contractors" under the section headed "Risk factors", and under the paragraph headed "Litigation" in Appendix V to this prospectus.

Guidelines for handling customer's feedback or complaints

Engaged in the business of service provision, the Directors believe that customer satisfaction is the key to the continuous growth and success of the Group. The Group has allocated considerable resources to provide quality services to customers. Customer's feedback is promptly handled by the customer service department, which is the Group's primary department responsible for handling customer feedback or complaints. To ensure that customer complaints are dealt with properly and promptly, the Group has compiled internal guidelines for handling customer's feedback which the customer service department is required to follow.

The guidelines stipulate that, among other things, the customer service department shall contact the complaining customer promptly. Relevant customers shall be regularly updated of the status of their complaints. In addition, complaints not resolved within two weeks shall be referred to the operation manager.

All complaints, except those directly addressed to senior management, are initially handled by customer service representatives who would promptly contact the relevant customer to offer assistance. In the event that the complaint is related to a specific service centre, the relevant service centre manager may be involved in resolving the complaint.

In the event that customer service representative fails to resolve complaints to the satisfaction of the relevant customers, customer service supervisor would be involved. Customer service supervisors are also responsible for handling complaints directly addressed to management. Customer service manager is responsible for handling of serious complaints such as personal injury and loss of properties. Operation manager, with assistance from finance and legal departments, is responsible for handling complaints and feedback received from customers.

DISPUTES AND LITIGATION HANDLING

As the Group is principally engaged in the provision of beauty and healthcare services to customers, it is expected that the customers may have subjective views on the level of satisfaction of the services provided, which may result in disputes. When handling a complaint, the Group tries to understand the reasons leading to the complaint and, to the extent possible, attempts to resolve the issue reasonably and amicably. However, if the dispute cannot be resolved by the above method and is substantiated into a formal action, the Group will assess the situation and decide whether and how to pursue the proceedings.

In an attempt to reduce claims made against the Group in the future, the Group will take various measures, including but not limited to the following:

1. reinforce its customer service team to achieve a more efficient and effective handling of customer complaints in the first place;
2. review each of the complaints to determine the reason leading thereto and attempt to resolve the complaint with the customer in an amicable way;

3. review the claims made against the Group from time to time to ascertain the areas within the Group that require improvement, to adopt remedial measures and to improve the services provided by the Group;
4. review the claims, ascertain and assess the areas of operation subject to dispute with a view to operating a more popular business; and
5. review its aggressive sales strategy against the capacity of the service centres of the Group to ensure that the Group is able to provide services to its customers timely.

In respect of cases which may be initiated by the Group, the Directors will consider various factors, including but not limited to, the chance of success, the financial situation of the other party, the costs and time to be incurred in the case and the past and future relationship between the Group and the potential defendant. The Group will only take legal proceedings when it considers that they are in the best interests of the Group and when there is no better alternative resolution.

Indemnity on litigation and claims

Ms. Tsang, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. (the “Indemnifiers”) have, pursuant to the Deed of Indemnity, agreed to provide indemnities in favour of the Group in respect of, among other matters, all claims, payments, suits, damages, settlement payments and/or any associated costs and expenses which would be incurred by any member of the Group as a result of litigation, arbitration and/or legal proceedings against any member of the Group which was issued, accrued and/or arising from any act of any member of the Group on or before the Listing Date.

The Indemnifiers shall be under no liability under the Deed of Indemnity for litigation and claims to the extent that full provision has been made for such claims and/or costs in the audited consolidated accounts of the Group or the audited accounts of the relevant member(s) of the Group for the three years ended 31st March, 2005 and the four months ended 31st July, 2005.

The indemnity in relation to litigation, claims and costs accrued and/or arising from any act of any member of the Group on or before the Listing Date, arising from or as a result of any litigation, arbitration and/or legal proceedings against any member of the Group will be backed by a bank guarantee of not less than HK\$10 million to be provided by American Express Bank in favour of the Company for a period of six years from the Listing Date. This amount is calculated by reference to the aggregate amount of approximately HK\$7.6 million, being the amount claimed against the Group as stated in the litigation documents, and a buffer of approximately HK\$2.4 million. The bank guarantee is supported by Ms. Tsang’s credit line with the bank, and will not be released unless there is approval from the independent board committee (comprising all the independent non-executive Directors). Any decision by the independent non-executive Directors to release the said bank guarantee will be disclosed by way of a paid announcement.

Whenever the Company receives any demand, notice, judgment or settlement proposal in respect of claims (the “Notice”), any director or officer of the Company who receives the Notice shall immediately notify and copy the Notice to all Directors (including the independent non-executive Directors).

Upon expiry of the six-year period, the independent non-executive Directors will review the number of on-going claims (including counter-claims) and litigation cases instigated against the Group at that time which are still subject to the Deed of Indemnity (including the amount claimed, nature of the claims and progress of the litigation cases) and will accordingly consider appropriate adjustments to the Guarantee, such adjustments may include (a) renewal of the Guarantee for the same aggregate sum of HK\$10 million; (b) renewal of the Guarantee for a reduced aggregate sum in the event that the number of on-going claims (including counter-claims) and litigation cases instigated against the Group and the aggregate amount claimed have been reduced; (c) release of the existing Guarantee if there is no longer any claim or litigation case instigated against the Group at that time; or (d) extension of the Guarantee.

QUALIFICATION AND AWARD

In April 2005, the Group’s service centre at 16th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong 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 spas and body massage services. The Group has established a quality assurance management system in accordance with the ISO requirements. In 2004, the Group was awarded the Superbrand Status for being followed a strict selection process by the Hong Kong Superbrands Council. In 2005, the Group was awarded the Best of the Best for Executives by “Capital Magazine” for its quality services and “Caring Company” for 2004/05 by the Hong Kong Council of Social Service.

MANAGEMENT INFORMATION SYSTEM

The Group places great emphasis on information technology in order to ensure business is transacted in an efficient and effective manner. In addition to using standard off-the-shelf software package, the Group developed a tailor-made CASM which was fully implemented in the head office and the service centres since 2004. Apart from sales invoices, the CASM also contributes to other management functions including client services management, appointment schedules management, product and service management as well as sales commission analysis. The CASM provides a platform to perform valuable analysis of, among others things, customer’s tastes, demographics and consuming behaviour. This greatly facilitates the Group’s management decision in its marketing strategy, selecting location for opening new service centre as well as launching of new services and products. With the real time connection among the head office and the service centres, the Group’s management can get quick access to timely and accurate information for making operational and financial decisions.

INVENTORY CONTROL

The Group maintains inventories which mainly include moisturizing gel, lotion, cleanser, mask, serum, massage oil, intensive fluid, sea clay, facial peel, cell energizer, essential oil, slimming gel, burning oil, shower oil, treatment powder and toner to be consumed in the provision of beauty, facial, spa, massage and slimming services to customers. Its inventories also include beauty products to be sold to customers in the Group's network of service centres such as skincare lotion, cleanser, eye gel, serum, mask, washing foam, skin repairing cream, collagen ampoules and body massage oil.

With the assistance of CASM, the Directors are able to assess inventory level at each service centre on a timely basis. The system can also provide useful information such as sales analysis of individual product, which facilitates decision of optimal inventory level, minimizes storage cost and risk of obsolete inventory.

The Group's inventory as at 31st March, 2003, 2004, 2005 and 31st July, 2005 was approximately HK\$9,818,000, HK\$5,775,000, HK\$6,596,000 and HK\$6,483,000 respectively. Inventory as at 31st March, 2004, 2005 and 31st July, 2005 represented approximately 25.1%, 5.6% and 18.6% of the net asset value of the Group at the respective date. The Group recorded a net liability of approximately HK\$38.5 million as at 31st March, 2003.

The Group's average stock turnover for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005 was approximately 444.2 days, 179.8 days, 199.2 days and 152.3 days, respectively. In order to enjoy discounts from bulk purchases, the Group used to adopt an inventory policy of maintaining high level of beauty materials. The policy gave rise to high average stock turnover days for the year ended 31st March, 2003 (approximately 444 days). Since the year ended 31st March, 2004, the Group has changed its inventory policy to maintain a lower stock level to save storage costs. In this connection, the average stock turnover days for the years ended 31st March, 2004 and 2005 and the four months ended 31st July, 2005 decreased significantly. The Group has made specific provision on slow moving items. Provisions in the amount of approximately nil, HK\$336,000, nil and nil were charged to the profit and loss account of the Group for the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively.

The Group carries out full stock take at the end of each financial year. It also carries out semi-annual stock take and ad-hoc stock take.

INTELLECTUAL PROPERTY RIGHTS

The Directors consider it to be important to protect the Group against infringement of its intellectual property rights and have taken appropriate steps to protect them, including the registration of trademarks and service marks and Internet domain names. The Group will take appropriate legal actions to protect its intellectual property rights if its management discovers any infringement of those rights.

Other than trademarks and service marks, the Group is not materially dependent on any intellectual property right. Further details of the Group's intellectual property rights are set out in the paragraph headed "Intellectual property" in the section headed "Further information about the business" in Appendix V to this prospectus.

The Directors are not aware of any material infringement of the Group's trademarks in the past and the Directors believe that the Group has taken all reasonable measures to prevent infringement of the Group's trademark.

COMPETITIVE ADVANTAGES

The Directors believe that with its relatively long operating history in Hong Kong and its extensive experience in the beauty and healthcare service industry, the Group has the following principal competitive advantages over its competitors and new market participants:

1. **Widely known brandnames**

With about 15 years of operations in Hong Kong offering a wide range of beauty and healthcare services, the Group's tradename "**Modern Beauty Salon** 現代美容中心" is widely known in the market. The Group's tradenames "**be Sanctuary Spa**", "**Slim Express** 大家歸瘦" and "**Modern Fitness**" and for spa and massage, slimming and fitness service lines, respectively, are widely marketed in Hong Kong. The Directors consider that the Group is well-positioned as a comprehensive beauty and healthcare service provider. The Directors believe that the Group is one of the first beauty service provider in Hong Kong offering comprehensive beauty and healthcare services through a network of large-scale service centres.

2. **Network of large-scale service centres**

The Group presently operates 15 large-scale service centres mainly located in prime commercial districts in Hong Kong with an average gross floor area ranging from approximately 7,000 sq.ft. to 37,000 sq.ft. except one of the service centres located at Carnavon Road with a saleable area of approximately 1,000 sq.ft. The Group's service centres are consistently furnished with luxurious and resort-style decoration and equipped with sophisticated facilities. The Group's service network provides convenient access with relaxing environment to its customers.

3. **Comprehensive range of and quality beauty and healthcare services**

The Group continues to develop a wide range of beauty and healthcare services to meet customers' needs. It also persistently enhances its service quality by adopting stringent quality control and provides on-going professional training to its staff. The Group's service centre at 16th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong was awarded

ISO9001:2000 Quality Certification for the provision of facial, slimming, spas and body massage services in 2005. The Directors believe that there are only a few beauty service providers with operational scale comparable to that of the Group's and that offer comprehensive and quality beauty services at a reasonable prices.

4. Experienced management team, sales force and well-trained beauticians

The Group's senior management team has many years of experience in the beauty and healthcare industry. To enhance the service standard of the Group's beauty professional staff, senior management share their experience with the frontline beauty staff and the Group also provides professional training to them. The Group provides continuous in-house and on-the-job training to its frontline beauty staff, which enables a steady supply of skilled staff for its service centres. The Group also formally established its beauty college in 2002 to provide professional training to its staff. Certain training courses provided in the Beauty Expert International College are recognised by international beauty organisations such as CIBTAC.

Based on the relatively long operating history and the above competitive strengths, the Directors believe that the Group is capable of carrying on its business independently of the controlling shareholder of the Company after the listing of the Shares on the Stock Exchange.

RELATIONSHIP BETWEEN THE GROUP AND JFH

The Group's ultimate controlling shareholder, Ms. Tsang, holds 100% interest in and is the chairperson and an executive director of JFH, a company incorporated in Singapore in 2003 with limited liability. JF (Singapore) Group commenced its business in Singapore in 1997 and is principally engaged in the provision of comprehensive beauty and healthcare services at its network of service centres in Singapore based on a similar business model of the Group in Hong Kong. It operated seven service centres and hired approximately 300 staff in Singapore as at the Latest Practicable Date. JF (Singapore) Group started to engage in the provision of beauty services in Malaysia in November 2005.

The Directors have confirmed that JF (Singapore) Group has its own senior management and daily operational staff which is separated from those of the Group and there is no sharing of operational staff between the Group and JF (Singapore) Group except that Ms. Tsang is the sole director of JF (Singapore) Group. In particular, the senior management team of JF (Singapore) Group, as at the Latest Practicable Date, consisted of six persons, namely Ms. Cindy Wee (general manager), Ms. Amanda Suen (shop manager), Ms. Chong Tze Mei (shop manager), Mr. Ricky Tang (accounting manager), Mr. Hartono (project manager) and Ms. Deidre Ong (human resources officer). Since its establishment in Singapore in 1997, JF (Singapore) Group has been and is currently operating independently in Singapore, confined to the provision of beauty and healthcare services for residents in Singapore and Malaysia (since late 2005), while the Group engages its business in Hong Kong, save that JF (Singapore) Group has been purchasing through the Group for bulk discount during the three years ended 31st March, 2005 and the four months ended 31st July, 2005. Such purchases through the Group will discontinue after listing of the Group.

Since its establishment in Singapore in 1997, JF (Singapore) Group has been and is currently operating under the trademarks owned and used by the Group. As the operation of JF (Singapore) Group is confined to Singapore and Malaysia, while the Group engages its business in Hong Kong and the rest of the world (other than Singapore and Malaysia), the Directors consider that delineation between the Group and JF (Singapore) Group would not be undermined.

Given that JF (Singapore) Group is principally engaged in the provision of beauty services in Singapore and Malaysia, which is in a different geographical location from that of the Group, the Directors consider that the business activities of JF (Singapore) Group does not compete with those of the Group. Notwithstanding this, as the business nature of JF (Singapore) Group is similar to that of the Group, in order to eliminate any potential competing business with the Group, JFH (for itself and as the trustee of its subsidiaries) has, jointly with Ms. Tsang, entered into Deed of Undertaking with the Company. Details of the Deed of Undertaking are set out in the paragraph headed “Non-competition undertaking” below.

The total audited turnover of JF (Singapore) Group for each of the three years ended 31st March, 2004 amounted to approximately S\$4.8 million (being approximately HK\$22 million), S\$3.2 million (being approximately HK\$14.7 million) and S\$8.8 million (being approximately HK\$40.3 million), respectively. The audited net profit of JF (Singapore) Group for the years ended 31st March, 2002 and 2004 amounted to approximately S\$21,515 (being approximately HK\$99,000) and S\$2.1 million (being approximately HK\$9.6 million), respectively. JF (Singapore) Group recorded a net loss of approximately S\$52,399 (being approximately HK\$240,000) for the year ended 31st March, 2003. As compared with the Group’s operation in Hong Kong, the Directors consider JF (Singapore) Group, as a business with relatively smaller operation scale, may require substantial capital injection for expansion. In addition, the Group intends to further expand its market share in Hong Kong and concentrate on exploring the PRC market. Accordingly, the Directors are of the opinion that it is in the best interests of the Group and the shareholders of the Company not to include JF (Singapore) Group as part of the Group. Further, since the businesses of the Group and JF (Singapore) Group are operated at different locations, and the operational staff of the Group and JF (Singapore) Group is different, the Group is able to run independently of, and as a separate and distinct platform from, JF (Singapore) Group. The Directors do not currently have any intention of acquiring the existing business of JF (Singapore) Group after the listing of the Shares on the main board of the Stock Exchange and the Company is granted an option exercisable by the Company to purchase the whole of the business of JF (Singapore) Group at a fair market value. In this respect, the Company has no pre-determined criteria in determining whether and when to acquire the business of JF (Singapore) Group. The Directors will take into account factors including the commercial benefits to the Group and expansion and development strategies and plans of the Group when determining whether to acquire JF (Singapore) Group. In the event that the option is exercised by the Company, the transaction will constitute a connected transaction for the Company under the Listing Rules for so long as Ms. Tsang remains a connected person of the Company and the controlling shareholder of JF (Singapore) Group. The Directors confirmed that they will comply with the disclosure and/or shareholders’ approval requirements (if any) under the Listing Rules. Further details are set out in the paragraph headed “Non-competition undertaking” below.

Non-competition undertaking

JF (Singapore) Group is principally engaged in the provision of beauty and healthcare services at its network of beauty centres in Singapore and engaged in the provision of beauty services in Malaysia while the Group is principally engaged in the provision of beauty and healthcare services and sale of beauty products and equipment in Hong Kong. JF (Singapore) Group will continue to be principally engaged in the provision of beauty and healthcare services at its network of beauty centres in Singapore and Malaysia after the listing of the Shares on the main board of the Stock Exchange.

In relation to the listing of the Shares on the Stock Exchange, each of JFH and Ms. Tsang has entered into the Deed of Undertaking in favour of the Group to the effect that for so long as Ms. Tsang is the controlling shareholder of JFH and she, and/or any of the companies controlled by her are beneficially interested, directly or indirectly, whether individually or taken together, in 30% or more of the issued share capital of the Company, JFH and Ms. Tsang will not, and JFH and Ms. Tsang will procure that none of its subsidiaries (other than the Group) and the companies controlled by her (other than the Group), respectively, will engage or otherwise be involved in any business which competes or is likely to compete, either directly or indirectly, with any of the Restricted Business in any of the regions in the world, including the regions in which the Group engages in and undertakes or will engage in or undertake the Restricted Business (such regions include the PRC (including Hong Kong) but exclude Singapore and Malaysia).

The above non-competition undertaking of JFH will not restrict JFH or any of its subsidiaries, which is not a member of the Group, either by itself or through another company indirectly, from:

- (1) for so long as the Company has not exercised the option to purchase the entire business of JFH, and prior to the completion of the sale and purchase of the business of JFH (the “S&P Completion”) and/or JFH has not ceased operation, engaging in the provision of the beauty services and sale of beauty products, provided that the beauty services are provided only in and/or the beauty products are sold only in Singapore and/or Malaysia; and
- (2) holding or being interested in any shares or other securities in any company which engages or involves in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and do not exceed 10% of such listed company’s issued share capital and provided further that at all times there is a shareholder holding more shares in the relevant listed company than the aggregate shareholding of JFH and/or its subsidiaries.

The above non-competition undertaking of Ms. Tsang will not restrict Ms. Tsang and/or any of the companies controlled by Ms. Tsang, either by herself or through another company indirectly, from:

- (1) holding or being interested in any shares or other securities in any company which engages or involves in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and do not exceed 10% of such listed company’s issued share

capital and provided further that at all times there is a shareholder holding more shares in the relevant listed company than the aggregate shareholding of Ms. Tsang and/or the companies controlled by Ms. Tsang; and

- (2) holding any shares or other securities in any member of the Group.

JFH has also irrevocably granted to the Company an option exercisable by the Company to purchase the whole of the business of JFH at a fair market value to be determined by an independent valuer nominated by the Company. In the event that the option is exercised by the Company, the transaction will constitute a connected transaction for the Company under the Listing Rules for so long as Ms. Tsang remains a substantial shareholder of the Company.

The undertaking will cease to have any effect on the earliest of the date on which:

- (1) the Shares cease to be listed and traded on the main board of the Stock Exchange;
- (2) the Group ceases to carry on business for provision of beauty services and sale of beauty products, or such business ceases to be a major business of the Group; and
- (3) the aggregate shareholding of Ms. Tsang and/or the companies controlled by her in the issued share capital of the Company and/or JFH falls below 30%, or Ms. Tsang otherwise ceases to be the controlling shareholder of the Company and/or JFH.

CONTINUING CONNECTED TRANSACTIONS

Following the completion of the Share Offer, the Group will continue to enter into or carry out the transactions described below. Such transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules once the Shares are listed on the Stock Exchange and for so long as Ms. Tsang and the companies controlled by her remain connected persons within the meaning of the Listing Rules.

A. **Continuing connected transactions exempted from reporting, announcement and independent shareholders' approval requirements**

The following transactions are continuing connected transactions exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules:

1. *Licensing agreement for use of trademarks (the "Trademark Licensing Agreement")*

On 26th January, 2006, Koladen Enterprises Inc. ("Koladen"), a wholly-owned subsidiary of the Company, (on behalf of the Group) and JFH, a company controlled by Ms. Tsang falling outside the Group entered into an agreement for the licensing of trademarks. Under this

agreement, Koladen on behalf of the registered owners of certain trademarks granted a non-exclusive, non-transferable and revocable license to JF (Singapore) Group authorising JF (Singapore) Group to use in Singapore and Malaysia the trademarks which are currently and will be in the future owned by any member of the Group (the “Trademarks”).

The duration of the Trademark Licensing Agreement is from the date on which the Share Offer becomes unconditional to 31st March, 2008. The Trademarks are licensed by Koladen (on behalf of members of the Group) to JF (Singapore) Group on the basis that the annual license fee payable under the Trademark Licensing Agreement are settled on normal commercial terms, that being 3% of the audited profits of JFH (“JFH’s 3% Profits”), provided that the annual license fee should not be less than HK\$200,000 if JFH’s 3% Profits fall below HK\$200,000 and that the annual license fee should not be more than HK\$500,000 if JFH’s 3% Profits exceed HK\$500,000. The license fee shall be paid annually by JFH to Koladen (or its designated entity) within 15 days from the date of the consolidated audited accounts of JFH.

During the period between the three years ended 31st March, 2005 and four months ended 31st July, 2005, Koladen (on behalf of member(s) of the Group) granted a license to JF (Singapore) Group to use the Trademarks at no consideration as explained below.

The JF (Singapore) Group was established in 1997 with only one shop. At that time, the operation of the JF (Singapore) Group was at a very preliminary stage, and the operation of the Group in Hong Kong was then still at a growing stage. The Directors were then of the view that trademarks of the Group at that moment were not widely known in Singapore and of insignificant value or contribution to the JF (Singapore) Group. The major reason to license the trademarks to the JF (Singapore) Group is to increase the awareness and popularity of the trademarks as a whole, which is beneficial to both the Group and the JF (Singapore) Group. Apart from granting the licence, the Group has not conducted any act to enhance public awareness of its trademarks in Singapore, which is the sole responsibility of the JF (Singapore) Group. On this premises, the Group decided that it was not commercially justifiable to charge the JF (Singapore) Group for any licensing fee since its incorporation and during the three years ended 31st March, 2005 and the four months ended 31st July, 2005.

Since JF (Singapore) Group is engaged in a service industry, the Directors believe that the major factor attributable to its success is the quality of services rather than the contribution of the trademarks. In view of the above, the Directors confirm that, and the Sponsor concurs with the view of the Directors that, the terms of the trademark licensing arrangement, in particular the calculation of licensing fee, which allows the Group to share the gains (3% of audited profit with a maximum and a minimum amount) whilst guaranteeing a minimum amount of income, are in accordance with market practice, fair and reasonable to both the Group and the JF (Singapore) Group and are on normal commercial terms.

In respect of the licence fee payable under the Trademark Licensing Agreement, it is expected that the aggregate licence fee on an annual basis payable by JFH under the Trademark Licensing Agreement in each of the three years ending 31st March 2006, 2007 and 2008 will not exceed approximately HK\$500,000.

As the aggregate annual consideration under the Trademark Licensing Agreement is estimated to be less than 0.1% of each of the percentage ratios (other than the profits ratio) and the licensing of the Trademarks is on normal commercial terms, the Trademark Licensing Agreement is exempted from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3)(a) of the Listing Rules. The Company will comply with the requirements under Chapter 14A of the Listing Rules should the exemption not be available for the above transaction.

2. *Tenancy agreement of 1st Floor, No. 46 Carnarvon Road, Tsimshatsui, Kowloon*

On 1st January, 2006, Chain Tech International Limited, a company controlled by Ms. Tsang falling outside the Group, and MOH Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Carnarvon Tenancy Agreement") pursuant to which MOH Limited leased from Chain Tech International Limited, the premises at 1st Floor, No. 46 Carnarvon Road, Tsimshatsui, Kowloon as a service centre of the Group. The duration of the Carnarvon Tenancy Agreement is three years ending on 31st December, 2008. The annual rental payable by MOH Limited under the Carnarvon Tenancy Agreement throughout the tenancy will be HK\$432,000. The annual rental is calculated based on a monthly rental of HK\$36,000. Sallmanns (Far East) Limited, an independent property valuer, has confirmed that the rental payment is in accordance with the market rate and the Directors and the Sponsor confirmed that the terms of the Carnarvon Tenancy Agreement are on normal commercial terms.

It is expected that the aggregate rental on an annual basis payable by MOH Limited under the Carnarvon Tenancy Agreement in each of the three years ending on 31st March, 2006, 2007 and 2008 will not exceed approximately HK\$432,000, respectively. The estimates have been arrived at based on historical figures.

As the aggregate annual consideration under the Carnarvon Tenancy Agreement is estimated to be less than 0.1% of each of the percentage ratios (other than the profits ratio) and the terms of which are on normal commercial terms, they are exempted from all reporting, announcement and independent shareholders' approval requirements under Rule 14A.33(3)(a) of the Listing Rules. The Company will comply with the requirements under Chapter 14A of the Listing Rules should the exemption not be available for the above transaction.

B. Continuing connected transactions exempted from independent shareholders' approval requirement only

The following transaction is continuing connected transaction exempted from independent shareholders' approval requirement only under Rule 14A.34 of the Listing Rules by reason that the transactions are on normal commercial terms and the total amount of each transaction expected to be incurred each year during the duration of the relevant agreement will not exceed 2.5% of the relevant percentage ratios (other than the profit ratio):

Tenancy Agreement of No. 47 Stanley Village Road, Hong Kong

On 26th February, 2004, a tenancy agreement (the "Stanley Tenancy Agreement") was entered into between All Link International Limited, a company controlled by Ms. Tsang falling outside the Group, and Modern (Human Resource) Limited, a wholly-owned subsidiary of the Company included in the Group, pursuant to which Modern (Human Resource) Limited leased from All Link International Limited the premises at No. 47 Stanley Village Road, Hong Kong as quarters for some of the Directors. The duration of the Stanley Tenancy Agreement is 26 months ending on 31st March, 2006. The annual rental payable by Modern (Human Resource) Limited under the Stanley Tenancy Agreement throughout the tenancy will be HK\$3,600,000. The annual rental is calculated based on a monthly rental of HK\$300,000. Sallmanns (Far East) Limited, an independent property valuer, has confirmed that the rental payment is in accordance with the market rate and the Directors and the Sponsor confirmed that the terms of the Stanley Tenancy Agreement are on normal commercial terms.

Rental paid under the Stanley Tenancy Agreement for each of the three years ended on 31st March, 2005 and the four months ended on 31st July, 2005 amounted to nil, HK\$600,000, HK\$3,600,000 and HK\$1,200,000, respectively. It is expected that the aggregate rental on an annual basis payable by Modern (Human Resource) Limited under the Stanley Tenancy Agreement in the year ending on 31st March, 2006 will not exceed approximately HK\$3,600,000. The estimates have been arrived at based on historical figures.

Application for waivers

The Directors, including the independent non-executive Directors, have confirmed that, save as disclosed above, there are currently no other continuing connected transactions after the completion of the Share Offer. In the opinion of our Directors (including the independent non-executive Directors), the transactions referred to above and the respective agreements (if any) governing such transactions are:

- (i) entered into by the relevant members of our Group in their ordinary and usual course of business;
- (ii) on normal commercial terms, that being terms which a party could obtain if the transaction were on an arm's length basis or on terms no less favourable to the Group than terms available to or from independent third parties; and

- (iii) on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole are concerned.

In accordance with Rule 14A.42(3) of the Listing Rules, the Sponsor has confirmed that, in their opinion, the non-exempt continuing connected transactions for which the waiver is sought are in the ordinary and usual course of business of the Company, on normal commercial terms, and fair and reasonable and in the interests of the shareholders of the Company as a whole.

Conditions of waiver

Pursuant to Rule 14A.33 of the Listing Rules, the transactions described in paragraph A above will be fully exempt from the reporting, announcement and independent shareholders' approval requirements. The transaction described in paragraph B above will be exempt from independent shareholders approval requirements under Rule 14A.34 of the Listing Rules.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with the announcement requirements of Chapter 14A of the Listing Rules during the duration of the continuing connected transaction mentioned in paragraph B. The Company will comply with the applicable rules set out in Chapter 14A of the Listing Rules in relation to the continuing connected transactions.