INDEBTEDNESS

Borrowings

As at the close of business on 30th November, 2005, being the latest practicable date prior to the printing of this prospectus for the purpose of this indebtedness statement, the Group did not have any borrowings.

Security

As at 30th November, 2005, the Group pledged bank deposits of approximately HK$43.4 million and listed equity securities of approximately HK$8.3 million, which is classified as "other investments/financial assets at fair value through profit or loss" in balance sheet, to certain banks to secure bank guarantees given to the Company's subsidiaries in respect of broadcasting airtime booking, purchase of goods and granting of credit card collection facility.

Personal pledge

A Director provided a personal call deposit of HK$35 million at a bank as a pledge for the bank's granting credit card collection facility to the Group during the three years ended 31st March, 2005. This personal bank deposit was replaced by the direct pledge of the Group's bank deposit of HK$35 million during the four months ended 31st July, 2005.

Commitments

As at 30th November, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases of approximately HK$58.9 million.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have any bank loans, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgage, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30th November, 2005.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30th November, 2005.

LIQUIDITY AND FINANCIAL RESOURCES

During the three years ended 31st March, 2005 and the four months ended 31st July 2005, the Group had not carried out any significant fund raising exercise and the amount of share capital remained comparatively low. The primary source of liquidity and financial resource was cash inflow from operating activities. This had generated a significant amount of deferred revenue which represented the major source of funding of the Group.

The following table sets forth certain information about the Group's audited combined cash flows during the three years ended 31st March, 2005 and the four months ended 31st July, 2005.

	Year ended 31st March,			Four months ended 31st July,
	2003	**2004**	**2005**	**2005**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*
Net cash inflows from operating activities	30.4	81.6	243.5	56.0
Net cash outflows from investing activities	(48.7)	(58.5)	(41.2)	(51.6)
Net cash flows from financing activities	—	—	—	—
Net (decrease)/increase in cash and cash equivalents	(18.3)	23.1	202.3	4.4
Cash and cash equivalents at beginning of the year	107.1	88.9	112.0	314.3
Cash and cash equivalents at end of the year	88.8	112.0	314.3	318.7
Net current (liabilities)/assets	(104.6)	(70.1)	2.9	(92.7)
Total equity	(38.5)	23.0	118.7	34.9

Net cash inflows from operating activities

The net cash inflows from operating activities in 2003 of approximately HK$30.4 million were mainly due to profit for the year of approximately HK$39.0 million, adding back adjustment for depreciation of property, plant and equipment of approximately HK$24.4 million, net of increase in amount due from a director, namely Ms. Tsang, of approximately HK$43.4 million as the Company had surplus cash available that the Company did not have alternative use. Including in the net cash inflows from operating activities, the increase in deferred revenue of approximately HK$2.1 million arose from additional receipts during the year of approximately HK$318.1 million and net of total gross sales for provision of beauty and healthcare services of approximately HK$316.0 million.

The net cash inflows from operating activities in 2004 of approximately HK$81.6 million were mainly due to profit for the year of approximately HK$61.5 million, adding back adjustments for depreciation of property, plant and equipment of approximately HK$23.9 million, decrease in amounts due from related companies of approximately HK$8.2 million, increase in deferred revenue of approximately HK$37.7 million, increase in amounts due to related companies of approximately HK$12.0 million and net of increase in amount due from a Director, namely Ms. Tsang, of approximately HK$75.5 million as the Company had surplus cash available that the Company did not have alternative use. The increase in deferred revenue of approximately HK$37.7 million arose from additional receipts during the year of approximately HK$407.6 million and net of total gross sales for provision of beauty and healthcare services of approximately HK$370.0 million. With the increasing recognition of the brandnames and the formation of a network of large scale service centres, customers were more comfortable in purchasing a larger amount of prepaid packages of service treatments at discounted price.

The net cash inflows from operating activities in 2005 of approximately HK$243.5 million were mainly due to profit for the year of approximately HK$105.2 million, adding back adjustments for depreciation of property, plant and equipment of approximately HK$20.3 million, decrease in amounts due from related companies of approximately HK$191.9 million and net of increase in amount due from a director, namely Ms. Tsang, of approximately HK$110.1 million. The decrease in amounts due from related companies and the increase in amounts due from a director, Ms. Tsang, was mainly due to novation of debts from New Consultants Limited, a related company, to Ms. Tsang amounting to HK$200.6 million. In 2005, the Group established a treasury policy to tighten the fund advance to the Director, namely Ms. Tsang, and the related companies controlled by her with a request to demand repayment of all the advances due as soon as possible, an amount of approximately HK$96.1 million had been repaid by Ms. Tsang during the year.

The net cash inflows from operating activities for the four months ended 31st July, 2005 of approximately HK$56.0 million were mainly due to profit for the period of approximately HK$34.1 million, adding back adjustments for depreciation of property, plant and equipment of approximately HK$7.9 million, decrease in amounts due from a director of approximately HK$41.1 million, increase in deferred revenue of approximately HK$12.7 million and net of decrease in amount due to related companies of approximately HK$42.7 million. The increase in deferred revenue of approximately HK$12.7 million represented additional receipts during the period of approximately HK$154.4 million and net of total gross sales for provision of beauty and healthcare services of approximately HK$141.7 million. During the four months ended 31st July, 2005, no further advances were made to the Directors, on the contrary, the net amount due from the Director, namely Ms. Tsang, and her related companies was greatly reduced to approximately HK$44.3 million due to a dividend payment of HK$118.0 million.

Amount due from/to Ms. Tsang/Directors/related parties

The net amounts due from Ms. Tsang and the related companies as at 31st March, 2003, 2004, 2005 and 31st July, 2005 amounted to approximately HK$221.6 million, HK$276.8 million, HK$165.6 million and HK$44.3 million, respectively. The Directors confirmed that amount due from/to Ms. Tsang and the related companies as at the three years ended 31st March, 2005 and four months ended 31st July, 2005 mainly arose from advances made to Ms. Tsang or the related companies in view of the surplus cash available that the Company did not have alternative use during these years/period, sales of equipment/materials and payments of operating expenses on behalf of the related companies during the years/period. The net amount due from/to Ms. Tsang and the related companies decreased to approximately HK$165.6 million in the year ended 31st March, 2005 mainly due to the acquisition of Well Faith International Enterprise Ltd. and East Union Industries Ltd. by the Group from Ms. Tsang at HK$1,000 and HK$10,000 respectively, and her partial repayment during the year. Well Faith International Enterprise Ltd. and East Union Industries Ltd. own properties in Hong Kong. The amount due from Ms. Tsang decreased to approximately HK$44.3 million as at 31st July, 2005 as a result of a dividend payment of about HK$118.0 million and her partial repayment during the period.

The outstanding amount due from Ms. Tsang as at 31st July, 2005 of approximately HK$44.3 million was fully settled on 1st November, 2005. In order to ensure better corporate governance, the Company will comply with the disclosure and/or shareholders' approval requirements (if any) under the Listing Rules. Further, as reflected in the terms of reference of the audit committee of the Company, all future loans made to any Director will be approved by the audit committee, comprising at least three Directors, a majority of whom should be independent non-executive Directors. Directors interested in the relevant loans will be abstained from voting.

Net cash outflows from investing activities

The net cash outflows from investing activities of approximately HK$48.7 million in 2003 mainly represented increase in pledged bank deposits of approximately HK$44.5 million and purchase of equipment of approximately HK$4.8 million. The pledged bank deposits were used to secure a credit card collection facility provided by a bank.

The net cash outflows from investing activities of approximately HK$58.5 million in 2004 were mainly due to: (i) purchase of an office premise at Kowloon Bay, Hong Kong of approximately HK$19.5 million; (ii) leasehold improvements of approximately HK$25.2 million related to the renovation and decoration of new service centres; (iii) purchase of other investments/financial assets at fair value of approximately HK$40.1 million, representing approximately 35.8% of the cash and cash equivalents of the Group as at 31st March, 2004; (iv) addition of pledged bank deposits of approximately HK$7.0 million for the issuance of bank guarantees to the Group's suppliers; and net of (v) proceeds from disposal of other investments/financial assets at fair value of approximately HK$31.7 million. The disposal of other investments/financial assets totaling HK$31.7 million mainly comprised the sales of bond investment of approximately HK$16.4 million and shares investments of approximately HK$15.3 million.

The net cash outflows from investing activities of approximately HK$41.2 million in 2005 mainly represented addition of leasehold improvements, plant and equipment for the new service centres totalling approximately HK$21.9 million, purchase of other investments/financial assets at fair value of approximately HK$27.3 million and net of the proceeds from sales of certain parts of the office premise located in Kowloon Bay, Hong Kong amounting to approximately HK$7.1 million.

The net cash outflows from investing activities for the four months ended 31st July, 2005 of approximately HK$51.6 million mainly comprised the purchase of properties totalling approximately HK$20.0 million in Kwai Chung and Yuen Long for the Group's own use of warehouse and service centre respectively, increase in pledged bank deposits of approximately HK$35.0 million to secure a credit card collection facility with a bank which was previously secured by a personal deposit of HK$35.0 million by Ms. Tsang and net of sales proceeds received from disposal of other investments/financial assets at fair value of approximately HK$7.8 million.

Net cash flows from financing activities

No material financing activities occurred during the three years ended 31st March, 2005 and the four months ended 31st July, 2005.

Net current assets/liabilities

As at 31st March, 2003, 31st March, 2004 and 31st July, 2005, the Group had net current liabilities of approximately HK$104.6 million, HK$70.1 million and HK$92.7 million, respectively. The net current liabilities comprised mainly the deferred revenue of approximately HK$482.6 million, HK$520.2 million and HK$562.7 million respectively which were non-fundable and would be recognised as service income when service treatments were delivered to customers from time to time and in accordance with the terms of the underlying agreements over a period of not more than three years from the date of purchases. The Directors consider that no cash outflow effect in respect of the deferred revenue and no liquidity problem is expected.

The change from net current liabilities position of approximately HK$104.6 million as at 31st March, 2003 to approximately HK70.1 million as at 31st March, 2004 and further to a net current asset position of approximately HK$2.9 million as at 31st March, 2005 was mainly due to the profits generated for the years ended 31st March, 2004 and 2005 of approximately HK61.5 million and HK$105.2 million, respectively.

As at 31st July, 2005, the Group had net current liabilities of approximately HK$92.7 million as a result of the profits generated for the four months ended 31st July, 2005 of approximately HK34.1 million and the dividend payment of HK$118.0 million during the period.

Total equity

As at 31st March, 2003, the Group had net liabilities of approximately HK$38.5 million. The net liabilities mainly resulted from the provisions for the amounts due from directors of approximately HK$13.5 million and HK$81.5 million made during the years ended 31st March 2001 and 2002 respectively. These amounts arose from a series of director's drawings made by Mr. Kwong Ping Sun, Danny, who is the ex-husband of Ms. Tsang and was a director of Modern Beauty Saloon Limited from 1991 to 1999, from time to time since 1993 to 1999 as well as made by Ms. Cheung Miu Yuen, who is Ms. Tsang's mother and held directorship in several Group companies from 1999 to 2005, during the years 2001 and 2002. The provisions were made after considering the low recoverability of these amounts, given the fact that the Group initiated legal proceedings against Mr. Kwong in May 2001 to seek repayment of his director's drawings and considering that the possibility of Ms. Cheung's repaying the amount to the Group was minimal in view of her lack of financial resources and age. As such, Ms. Cheung's obligation to repay the amount was released and waived eventually.

The Group changed from a net liabilities position of approximately HK$38.5 million as at 31st March, 2003 to a net assets position of approximately HK$23.0 million as at 31st March, 2004 since it earned a profit of approximately HK$61.5 million for the year ended 31st March, 2004.

The total net assets of the Group increased from approximately HK$23.0 million as at 31st March, 2004 to approximately HK$118.7 million as at 31st March, 2005 due to the combined effect of profit earned for the year ended 31st March, 2005 of approximately HK$105.2 million and the payment of dividends of HK$9.4 million.

The total net assets of the Group decreased from approximately HK$118.7 million as at 31st March, 2005 to approximately HK$34.9 million as at 31st July, 2005 due to the combined effect of profit earned for the four months ended 31st July, 2005 of approximately HK$34.1 million and the payment of dividends of HK$118.0 million.

Borrowings and bank facilities

The Group generally finances its operations through a combination of shareholders' equity and internally generated cash flows.

As at 31st July, 2005, the Group had available banking facilities of approximately HK$85.5 million. Such facilities were secured by the Group's pledged bank deposits of approximately HK$86.5 million and a guaranteed return fund of approximately HK$8.7 million as at 31st July, 2005. Among the utilised banking facilities of approximately HK$43.4 million, HK$2.4 million was used for the issuance of bank guarantee for television advertising purpose, HK$6.0 million was used for securing a trade finance facility and HK$35.0 million was used as a pledge for credit card collection facility.

CRITICAL ACCOUNTING POLICIES

The Group's management discussion and analysis of its financial condition and results of operations is based on the audited combined financial statements prepared in accordance with the basis set out in note 1 of the Section II "Group reorganisation and basis of preparation" of the accountants' report in Appendix I to this prospectus and the principal accounting policies set out in note 2 of the Section II "Principal accounting policies" of the accountants' report in Appendix I to this prospectus which are in conformity with the Hong Kong Financial Reporting Standards issued by HKICPA. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the combined financial statements. The Group bases its assumptions and estimates on historical experience, the experience of other companies in the industry and on various other assumptions that the Group believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's results. The Group's management evaluates its assumptions and estimates on a regular basis. Actual results may differ from these estimates, and the Group's estimates may differ from other estimates that could be made under different assumptions and conditions.

The selection of critical accounting policies, the judgments and uncertainties affecting application of those policies and the sensitivity of reported results and financial condition to change in conditions and assumptions are factors to be considered when reviewing the Group's audited combined financial statements. The Directors believe that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the combined financial information.

Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economics benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

(i) Sales are derived from the provision of beauty and healthcare services. The Group's beauty service packages are normally sold with expiry period of two years from the date of purchases and are non-refundable unless special approval is granted by the senior management of the Group. In accordance with the generally accepted accounting principles, the Group's sales receipts from beauty service packages are recorded as deferred revenue in the balance sheets at the point of sales. The purchased prepaid beauty packages and the free beauty packages with same nature are aggregated to compute the effective selling price per usage which are applied in the calculation of the deferred revenue for the unused prepaid beauty packages. Sales are recognised when the service treatments are delivered to customers from time to time and in accordance with the terms of the underlying agreements over a period of not more than three years from the date of purchases based on the effective selling price per usage. Prepaid beauty packages over three years from the date of purchase were fully recognised as sales.

(ii) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers.

(iii) Interest income is recognised on a time proportion basis, using the effective interest method.

(iv) Rental income from operating leases on investment properties are recognised on a straight-line basis over the lease term.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance are recognised as expenses in the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold buildings	Over the lease term
Leasehold improvements	Over the lease term
Plant and equipment	Four years
Furniture and fixtures	Four years
Motor vehicles	Three years
Computers	Three years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

DISCLOSURE UNDER RULE 13.13 TO RULE 13.19 OF THE LISITNG RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

TRADING RECORD

The table below summarises the combined results of the Group for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, together with the unaudited comparative figures for the four months ended 31st July, 2004. The summary has been prepared as if the current structure of the Group had been in place throughout the period under review or from the respective dates of incorporation of the companies now comprising the Group. The summary should be read in conjunction with the accountants' report of the Group as set out in Appendix I to this prospectus.

	Year ended 31st March,			**Four months ended 31st July,**	
	2003	**2004**	**2005**	**2004**	**2005**
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Sales					
Provision of beauty and healthcare services	308,274	325,167	377,803	123,219	128,337
Sales attributable to the recognition of expired prepaid packages	7,772	44,750	58,394	16,297	13,317
Sales of products and equipment	17,996	11,739	20,735	6,692	9,251
	334,042	381,656	456,932	146,208	150,905
Other gains - net	3,202	9,092	9,019	2,571	7,126
Cost of inventories sold	(8,067)	(11,722)	(12,085)	(5,050)	(5,192)
Staff costs	(150,115)	(151,464)	(172,043)	(57,803)	(55,641)
Depreciation and amortisation	(24,526)	(24,228)	(20,569)	(5,897)	(7,983)
Occupancy costs	(55,409)	(48,177)	(42,069)	(14,066)	(15,361)
Other operating expenses	(52,863)	(82,213)	(92,442)	(29,653)	(33,183)
Profit before taxation	46,264	72,944	126,743	36,310	40,671
Taxation	(7,269)	(11,453)	(21,572)	(5,662)	(6,545)
Profit for the year/period attributable to equity holders of the Company	38,995	61,491	105,171	30,648	34,126
Dividends	—	—	9,400	—	118,000

Past deficiency of accounting system

Since the year ended 31st March, 2003, free beauty packages were extensively used by the Group as part of the strategy to attract customers in buying prepaid beauty packages. The then point of sales system of Modern Beauty Saloon Limited and Modern Beauty Salon (HK) Limited (the "Companies") was unable to compute the effective selling price per usage (i.e. the average selling price) of the beauty services on a contract-by-contract basis due to the fact that the invoice number of paid coupons and free coupons could not be automatically matched in the system resulting that the matching had to be performed manually to compute the effective selling price. Accordingly, the then auditor of these two companies was of the view that the allocation of receipts from customers between recorded sales in the income statements and deferred revenue on the balance sheets for 2003 was an issue. As there were more than 300,000 sales contracts with sales of one or more items per contract, the previous accounting team was not able to compile a full list of effective selling price per usage for each contract to resolve such issue before the then auditor issued their report. With the tax deadline approaching, management had no options but to accept the qualification. The transaction data including the customer name, contract date, contract amount, subsequent utilisation by the customers as captured in the point-of-sales database were accurate and not an issue for the 2003 audit.

Subsequent to the issuance of the 2003 accounts by the then auditor on 13th February, 2004, the Company recruited a new accounting team, which included a Chief Financial Officer and eight qualified accountants being employed in February 2004 and shortly afterwards, to compute the effective selling price per usage of the beauty services on a contract-by-contract basis for the sales transactions entered into before 1st January, 2004 based on the transaction data captured in the point-of-sales database to re-calculate the appropriate allocation of receipts from the customers and subscriptions received in advance for each financial period. The transaction data prior to 1st January, 2004 were downloaded from the point of sales system to an excel file and matching work were manually performed to calculate the effective selling prices. Afterwards, these effective selling prices were uploaded back to the point of sales system. In addition, since 1st January, 2004, the system has been enhanced with the function of automatically calculating the effective selling price of invoices and the Company has also adopted a new invoice numbering system since 1st January, 2004 so that the matching of the invoice number for paid coupons and free coupons could be done by the system automatically. After subsequent upgrading, the Group's point of sales system is able to compute the effective selling price per usage of beauty services on a contract-by-contract basis and the new system was put into use since January 2004. The year ended 31st March, 2005 was the first financial full year after implementation of the new system.

In 2004, the Group have revised the revenue recognition policy where the revenue is initially recognised on actual utilisation of the services based on the effective selling price per usage from the enhanced point-of-sales database. Periodically, the Companies transferred the monetary amounts of unutilised services to revenue upon the extended expiry dates of the contracts, normally three years after inception. Such policy was applied retrospectively to the accounts of the Companies for the year ended 31st March, 2003.

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.

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 31st July,
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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	730	730	716	468
Total gross sales for provision of beauty and healthcare services	316,046	369,917	436,197	141,654

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 behavior 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, 2003	Year ended 31st March, 2004	Year ended 31st March, 2005	Four months ended 31st July, 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.

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 all levels of 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of operations

The Group is principally engaged in the provision of comprehensive beauty and healthcare services through its network of service centres in Hong Kong. It provides a wide range of beauty and healthcare services under its own tradenames of "**Modern Beauty Salon 現代美容中心**", "**be Sanctuary Spa**", "**Slim Express 大家歸瘦**" and "**Modern Fitness**". The Group also engages in the sales of beauty and skincare products under its own brandname of "**be**" in its network of service centres.

Beauty and healthcare services

The Group generates its revenue principally from the provision of beauty and healthcare services in its network of service centres in Hong Kong. The Group promotes its services by offering prepaid packages of treatment courses at discounted pricing to customers to enhance customer loyalty. The prepayment mode of operation not only enables a positive cash inflow for the Group to finance its operations, but also secures the Group's future revenue. As at each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, the accumulated customers' prepayment received amounted to approximately HK$482.6 million, HK$520.2 million, HK$549.9 million and HK$562.7 million, respectively.

During each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, the cash receipt for the Group's ten most popular beauty-related treatments contributed to approximately 42.0%, 48.4%, 43.4% and 43.5% of the total cash receipts during the respective years/period. These ten most popular beauty-related treatments include body massage, lymph body treatments, special any treatments and intense pulse light treatments.

The Group recognises the customers' service treatment prepayment as revenue proportionally when services treatments are delivered to customers from time to time and in accordance with the terms of the relevant underlying agreements over a period of not more than three years from the date of purchases. All un-utilised beauty service packages are recognised as revenue upon expiry of the contracts. During each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, the total gross sales for beauty and healthcare services amounted to approximately HK$316.0 million, HK$369.9 million, HK$436.2 million and HK$141.7 million, respectively, which represented approximately 94.6%, 96.9%, 95.5% and 93.9% of the Group's total sales. The recovery of the retail market in Hong Kong after the SARS outbreak has benefited the retail industry, and the sales of the Group are increased by approximately HK$47.6 million and HK$75.3 million in 2004 and 2005, respectively.

Sales attributable to the recognition of expired prepaid beauty packages

Out of the total gross sales for beauty and healthcare services of approximately HK$316.0 million, HK$369.9 million, HK$436.2 million and HK$141.7 million for the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively, sales attributable to the recognition of expired prepaid beauty packages amounted to approximately HK$7.8 million, HK$44.8 million, HK$58.4 million and HK$13.3 million, which represented approximately 2.5%, 12.1%, 13.4% and 9.4% of the Group's total gross sales for beauty and healthcare services during the respective periods.

The sales attributable to the recognition of expired prepaid beauty packages increased significantly from approximately HK$7.8 million in 2003 to approximately HK$44.8 million in 2004. Such increase was mainly due to the surge in the additional receipts from sales of prepaid beauty packages of approximately HK$ 212.8 million in 2000 to approximately HK$ 335.4 million in 2001, as a result of the fast expansion of the Group's service network in Hong Kong from 10 service centres in 2000 to 15 in 2001, with the average total gross floor area increased from approximately 58,000 sq.ft. in 2000 to approximately 121,000 sq.ft. in 2001 as well as with more aggressive sales strategies. With the aggressive sales force, the rate of increase in additional receipts exceeded the rate of increase in service capacity.

Profit attributable to the recognition of expired prepaid beauty packages

The profit generated from recognizing the expired prepaid beauty packages for the three years ended 31st March, 2005 and the four months ended 31st July, 2005 was approximately HK$7.8 million, HK$44.8 million, HK$58.4 million and HK$13.3 million, respectively, representing approximately 20.0%, 72.8%, 55.5% and 39.0% of the Group's net profit during the respective periods. The percentage of profit earned from recognition of expired prepaid beauty packages was particularly high for the year 2004 (approximately 72.8%) as compared with 20.0% in 2003 was due to the significant increase in the sales from recognising the expired prepaid beauty packages from approximately HK$7.8 million in 2003 to approximately HK$44.8 million in 2004 as a result of the surge in additional receipts from sales of prepaid beauty packages from approximately HK$212.8 million in 2000 to approximately HK$335.4 million in 2001.

The portion of profit earned from recognition of expired prepaid beauty packages decreased considerably from approximately 72.8% in 2004 to approximately 55.5% in 2005. Such decrease was mainly due to the increase in the sales from provision of beauty and healthcare services from approximately HK$325.2 million in 2004 to approximately HK$377.8 million in 2005, representing an increase of approximately HK$52.6 million; while the increase in sales from recognising the expired prepaid beauty packages was relatively low from approximately HK$44.8 million in 2004 to approximately HK$58.4 million in 2005, representing only an increase of approximately HK$13.6 million. For the four months ended 31st July, 2005, the portion of profit earned from recognising the expired prepaid beauty packages further decreased to approximately 39.0% due to the increase in sales from provision of beauty and healthcare services together with the decrease in sales from recognizing the expired prepaid beauty packages.

The Group's service lines can be broadly classified into four major areas including (i) beauty and facial services; (ii) spa and massage services; (iii) slimming services; and (iv) fitness services. The Group's service centres have been traded under the tradename of "**Modern Beauty Salon 現代美容中心**" which provides all kinds of beauty and healthcare services under the four major service lines. With the increasing popularity of spa services in Hong Kong, the Group has set up several service centres under the tradename of "**be Sanctuary Spa**" which focus on the provision of comprehensive spa and massage treatments according to customers' personal needs apart from providing facial and slimming services.

As one of the leaders in the market, the large Group's scale of operation in the provision of beauty and healthcare services and sales of beauty products enabled the Group to benefit from the effects of economies of scales, and hence to enjoy an increase in sales.

Beauty products and equipment

The Group offers for sale various types of beauty and skincare products under its own brandname of "**be**" in its service centres. The products sold include skincare lotion, cleanser, eye gel, serum, mask, washing foam, skin repairing cream and body massage oil. The Group also distributes beauty products and equipment under third party brandnames which are sourced from suppliers in Europe. During each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, revenue derived from the sales of beauty products and equipment amounted to approximately HK$18.0 million, HK$11.7 million, HK$20.7 million and HK$9.3 million respectively which represented approximately 5.4%, 3.1%, 4.5% and 6.1% of the Group's total sales.

The following tables set out the performance of the four major service lines and sales of beauty products and equipment during each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005.

	Year ended 31st March,						Four months ended 31st July,	
	2003		2004		2005		2005	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Beauty and facial	125,332	37.5	140,320	36.8	189,078	41.4	56,916	37.7
Spa and massage	71,681	21.5	87,490	22.9	88,263	19.3	31,989	21.2
Slimming	95,031	28.4	117,606	30.8	138,298	30.3	45,839	30.4
Fitness	24,002	7.2	24,501	6.4	20,558	4.5	6,910	4.6
Beauty products and equipment	17,996	5.4	11,739	3.1	20,735	4.5	9,251	6.1
Sales	334,042	100.0	381,656	100.0	456,932	100.0	150,905	100.0

The Group's service centres in Hong Kong form a service network and customers have the flexibility of choosing a service centre which is most convenient to enjoy the Group's services and treatments.

As at the Latest Practicable Date, the Group operated seven service centres in Hong Kong under the tradename of "**Modern Beauty Salon 現代美容中心**" and another seven service centres under the tradename of "**be Sanctuary Spa**". The numbers of service centres, approximate total gross floor area of the Group's service centres and the number of frontline beauty staff as at 31st March, 2003, 2004 and 2005 and 31st July, 2005 are summarized as follows:

	As at 31st March,			As at 31st July,
	2003	2004	2005	2005
Number of service centres	16	15	13	13
Approximate average total gross floor area of service centres (sq.ft.)	181,000	184,000	210,000	215,000
Number of frontline beauty staff	668	700	762	831

As at the Latest Practicable Date, the approximate total gross floor area of the Group's service centres was approximately 218,000 sq.ft.

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.

To cope with the increase in the number of new customers, the average total gross floor area of service centres increased as shown above. Besides, the number of frontline beauty staff also increased from 668 in 2003 to 762 in 2005. The Group has provided periodical professional training and assessments to its frontline beauty staff for the purpose of maintaining a high service standard and quality. The increase in average total gross floor area of service centres and number of frontline beauty staff contributed to the growth of the Group's sales during the year.

Results of operations

Sales

Over the three years ended 31st March, 2005, sales grew from approximately HK$334.0 million in 2003 to approximately HK$456.9 million in 2005, representing an increase of approximately 36.8%. The increase in sales during the three years ended 31st March, 2005 was mainly attributable to the opening of new service centres with larger gross floor area to replace the old service centres at less attractive locations (the average total gross floor area of service centres increased from approximately 181,000 sq.ft. in 2003 to approximately 210,000 sq.ft in 2005). In addition, with an increase in advertising campaigns and extensive use of free beauty packages promotion, the Group has brought in large number of new customers during the three years ended 31st March, 2005. Further, the Group has been providing more new beauty services charges at higher price due to the use of more advanced beauty equipment. The Group further recorded sales of approximately HK$150.9 million for the four months ended 31st July, 2005.

Profit for the year/period attributable to equity holders

Profit for the year/period attributable to equity holders recorded by the Group in 2003 was approximately HK$39.0 million. In 2004, the Group's profit for the year/period attributable to equity holders increased to approximately HK$61.5 million, representing an increase of approximately 57.7% from 2003. In 2005, profit for the year/period attributable to equity holders increased to approximately HK$105.2 million, representing an increase of approximately 71.0% from 2004. Such increases were mainly attributable to the increases in sales, which mirrored the increases in average total gross floor area of the Group's service centres, which has increased from approximately 181,000 sq.ft. in 2003 to approximately 184,000 sq.ft. in 2004 and further to approximately 210,000 sq.ft. in 2005. The Group further recorded a profit for the year/period attributable to equity holders of approximately HK$34.1 million for the four months ended 31st July, 2005 and the approximate average total gross floor area of the Group's service centres has increased to approximately 215,000 sq.ft. for that period.

Major expenses

Major expenses of the Group include cost of inventories sold, staff costs, depreciation and amortisation, occupancy costs and other operating expenses. Cost of inventories sold mainly comprises cost of raw materials and freight charges. The cost of inventories sold represented approximately 2.4%, 3.1%, 2.6% and 3.4% of the Group's sales for the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively.

Staff costs mainly include salaries paid to the frontline beauty staff based on a piecework basis, staff's basic salaries and discretionary bonus, directors' remuneration and mandatory provident fund scheme contribution. The total staff costs represent approximately 44.9%, 39.7%, 37.7% and 36.9% of the Group's total sales for the three years ended 31st March, 2005 and the four months ended 31st July, 2005 respectively. The increment of staff costs since 2004 was mainly attributable to the increase in the number of staff employed from 799 as at 31st March, 2004 to 890 as at 31st March, 2005.

Occupancy costs represent rental expenses paid for the Group's service centres. Unlike product retail business for which the location of retail outlets on ground floor is an important element to attract customers, the Group's service centres are mainly located in the prime commercial districts at upper floors of buildings for which the rental charges are lower. With the flexibility of choosing the locations of service centres, the Group does not face much pressure of increasing rental expenses.

Other expenses mainly comprise advertising expenses, bank charges, utilities and building management fee. To penetrate into the market and attract more new customers, the Group increased advertising and promotional expenses during the three years ended 31st March, 2005 and the four months ended 31st July, 2005. In addition, there was an increasing number of customers who chose to settle their purchases by credit card instalment plans for which the Group had to incur higher bank charges.

Investment in beauty equipment and decoration of service centres

The Group places great emphasis on service quality by continuously enhancing its frontline beauty staff's service standard. The Group's service centre at 16th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong has been awarded the ISO9001:2000 Quality Management System by the British Standards Institution since April 2005. The Group also invested substantial resources in acquiring advanced beauty equipment and decorating its service centres with luxurious and resort style decoration, with an aim to providing a relaxing and comfortable environment to customers. During each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, the Group has invested funds of approximately HK$4.8 million, HK$22.5 million, HK$18.9 million and HK$1.4 million, respectively, in purchase of beauty equipment and decorations of service centres.

Leasehold land prepayments

Leasehold land prepayments represent the up-front payments to acquire the long-term interests in owner-occupied property, i.e. the portion of the land cost. The increase from approximately HK$3.7 million as at 31st March, 2003 to approximately HK$13.0 million as at 31st March, 2004 was mainly due to the purchase of the whole floor at 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay for office and warehouse usage. A portion of the office was sold in 2005 to a third party and led to the decrease to approximately HK$10.5 million as at 31st March, 2005. During the four months ended 31st July, 2005, the Group further acquired a warehouse at Kwai Chung and a shop premise at Yuen Long, with leasehold land prepayments amounting to approximately HK$2.0 million and HK$15.4 million, respectively.

Property, plant and equipment

Property, plant and equipment comprised the net book value of leasehold improvements, equipment and machinery, furniture and fixtures, motor vehicles and computers. The additions to the cost of the leasehold improvement for 2004 and 2005 were approximately HK$18.5 million and HK$11.6 million, respectively, which represented the renovation of the new service centres and refurbishment to the existing service centres.

Other investments/financial assets at fair value through profit and loss

The Group receives customers' prepayment for beauty and healthcare services. The increase in new customers as well as additional prepayment from the existing customers have brought a steady inflow of cash to the Group. The Group adopts a conservative approach in creating an investment portfolio for cash received. Part of the cash of the Group was invested in shares listed on the Stock Exchange while the remaining was invested mainly in low-risk unlisted funds and debt securities. The gradual increase from approximately HK$17.4 million as at 31st March, 2003 to approximately HK$57.8 million as at 31st March, 2005 was due to the re-allocation of more funds to earn better return, with consideration to an acceptable level of risk exposure.

Amounts due from/to a directors/amounts due from related companies

The amounts due from/to a director and related companies during the three years ended 31st March, 2005 and the four months ended 31st July, 2005 represented sums advanced to Ms. Tsang and her controlled companies including New Consultants Limited, sales of equipment and materials to JF (Singapore) Group and payment of operating expenses on behalf of the related companies. The Group advanced sums to Ms. Tsang and her controlled companies during the three years ended 31st March, 2005 and the four months ended 31st July, 2005 due to the fact that the Group had surplus cash and both the Group and the relevant related companies were wholly owned by Ms. Tsang at that time. The outstanding amount due from the Group directors of approximately HK$44.3 million was fully settled in November 2005.

Trade receivables

Trade receivables of the Group mainly represent the amount due from the credit card collection bankers that the Group employs to collect the sales proceeds arose from credit card sales. For credit card sales under interest-free instalment program offered to customers by the bankers, it normally takes a few weeks to collect the whole sales proceeds from the bankers due to additional processing time required by the bankers to approve the customers instalment program application. The balance of trade receivables increased from approximately HK$7.5 million as at 31st March, 2003 to HK$29.8 million as at 31st March, 2005 because more credit cardholders chose to settle by interest-free instalment plans. Moreover, the Group also selected a credit card collection facility of a bank under which the sales proceeds collected were held by 60 days in exchange for a lower transaction rate from that bank. Trade receivables aging of the Group is within 90 days.

Pledged bank deposits

Some fixed deposits of the Group were pledged to certain bankers for obtaining trade finance as well as credit card collection facilities. During the four months ended 31st July, 2005, additional fixed deposit of HK$35 million was pledged to a bank to secure their granting of credit card collection facilities to the Group.

Cash and cash equivalents

The increase in cash and cash equivalents from approximately HK$88.9 million as at 31st March, 2003 to HK$314.3 million as at 31st March, 2005 was mainly due to the net profit made throughout the years, the increase in prepayment of trade receipt by the customers as well as the repayment from the director/related companies.

Trade payables

Trade payables arose from the purchases of beauty products, materials and equipment from local and overseas suppliers. A large portion of the trade payables are within 30 days but the Group also settled with certain suppliers on a cash on delivery basis in order to get better terms.

Deferred revenue

	As at year ended 31st March,			**As at 31st July,**
	2003	**2004**	**2005**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st April	480,481	482,554	520,205	549,932
Additional receipts during the year/period *(Note 1)*	318,119	407,568	465,924	154,374
Sales for provision of beauty and healthcare services *(Note 2)*	(308,274)	(325,167)	(377,803)	(128,337)
Sales attributable to the recognition of expired prepaid beauty packages *(Note 3)*	(7,772)	(44,750)	(58,394)	(13,317)
As at 31st March	482,554	520,205	549,932	562,652

Note 1: The additional receipts represented the receipts from sales of beauty and healthcare services to customers which were settled via credit cards, EPS, cheque and cash during the years/period.

Note 2: Sales for provision of beauty and healthcare services represented the sales recognised in the profit and loss account from the provision of beauty and healthcare services to customers during the years/period.

Note 3: Sales attributable to the recognition of expired prepaid beauty packages represented sales recognised in the profit and loss account from recognising the prepayments which were over three years from the date of purchase of the beauty packages as at the financial year end.

An aged analysis of deferred revenue as at the balance sheets dates is as follows:

	As at year ended 31st March,						As at 31st July,	
	2003		2004		2005		2005	
	HK$'000	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*	*HK$'000*	*(%)*
Within 1 year	242,955	50.3%	285,503	54.9%	306,144	55.7%	304,746	54.2%
More than 1 year but within 2 years	157,352	32.6%	138,939	26.7%	146,016	26.6%	157,972	28.1%
More than 2 years but within 3 years	82,247	17.1%	95,763	18.4%	97,772	17.7%	99,934	17.7%
	482,554	100.0%	520,205	100.0%	549,932	100.0%	562,652	100.0%

Deferred revenue represents customers' prepayment for beauty and healthcare services. Over the three years ended 31st March, 2005, the additional receipts from sales of prepaid beauty packages increased from approximately HK$318.1 million in 2003 to approximately HK$407.6 million in 2004 and further increased to HK$465.9 million in 2005. The increase was mainly due to increase in advertising and promotion expenses from approximately HK$6.5 million in 2003 to approximately HK$22.9 million in 2004 and further to approximately HK$29.8 million in 2005. The extensive use of free beauty packages promotion also contributed to part of the increase.

Over the three years ended 31st March, 2005, the sales for provision of beauty and healthcare services increased from approximately HK$308.3 million in 2003 to approximately HK$325.2 million in 2004 and further increased to HK$377.8 million in 2005. The increases were mainly attributable to the increases in service capacity with the approximate average total gross floor area of service centres increasing from approximately 181,000 sq.ft. in 2003 to approximately 210,000 sq.ft. in 2005.

The sales attributable to the recognition of expired prepaid packages increased significantly from approximately HK$7.8 million in 2003 to approximately HK$44.8 million in 2004. Such increase was mainly due to the surge in the additional receipts from sales of prepaid beauty packages of approximately HK$212.8 million in 2000 to approximately HK$335.4 million in 2001, as a result of the fast expansion of the Group's service network in Hong Kong from 10 service centres in 2000 to 15 in 2001, with the average total gross floor area increased from approximately 58,000 sq.ft. in 2000 to approximately 121,000 sq.ft. in 2001, as well as with more aggressive sales strategies. With the aggressive sales force, the rate of increase in additional receipts exceeded the rate of increase in service capacity.

As the additional receipts for each year as well as four months ended 31st July, 2005 was larger than the aggregate sum of the sales for provision of beauty and healthcare services and the sales attributable to the recognition of expired prepaid beauty packages in the respective periods, the amount of deferred revenue increased gradually from approximately HK$482.6 million as at 31st

March, 2003 to approximately HK$520.2 million as at 31st March, 2004, further to approximately HK$549.9 million as at 31st March, 2005 and finally to approximately HK$562.7 million as at 31st July, 2005. With the aggressive sales force, the rate of increase in additional receipts exceeded the rate of increase in service capacity.

The aged analysis of deferred revenue was calculated based on invoice date of the prepaid packages. The percentage mix of the aged analysis of deferred revenue did not show significant fluctuation for the three years ended 31st March, 2003, 2004 and 2005 and 31st July, 2005. The deferred revenue with age of within one year represented the largest portion of the mix, which was approximately 50.3%, 54.9%, 55.7% and 54.2% as at the years ended 31st March, 2003, 2004, 2005 and 31st July, 2005, respectively.

For the year ended 31st March, 2003, the deferred revenue with age of more than one year but within two years represented approximately 32.6% of the total deferred revenue which was comparatively larger than the ratio of approximately 26.7% and 26.6% as at 31st March, 2004 and 2005 respectively. The difference in ratio was mainly attributable to the large increase in additional receipts in 2002 as a result of opening more service centres in prime commercial areas.

In conclusion, the Directors consider that the high price of the beauty treatments (the highest being HK$80,000), the large amount of customers with unexpired packages, the long validity period of the prepaid packages (2 years with 1 year of discretionary extension) and the consumption rate of the packages by customers together contribute to the large amount of prepaid packages carried in the accounts of the Group when compared to its sales. Apart from the above factors, the Directors also consider that the strong sales team of the Group, the proactive sales strategy of the sales force, the promotional campaigns of the Group and the new services launched from time to time together render the growth of sales (which lead to larger amount of prepaid packages) out-rating the consumption rate of the packages by its customers. The Directors consider it is natural that the amount of prepaid packages is high when compared to that of sales.

Year ended 31st March, 2003

Sales of the Group for the year ended 31st March, 2003 amounted to approximately HK$334.0 million, of which, approximately 94.6% was derived from provision of beauty and healthcare services and approximately 5.4% from sales of beauty products and equipment.

Other gains-net for the year was approximately HK$3.2 million, which mainly comprised interest income of approximately HK$1.6 million, and gross rental income of approximately HK$0.6 million. The gross rental income was received from independent third parties for leasing of a portion of warehouse.

Cost of inventories sold recorded for the year were approximately HK$8.1 million, representing approximately 2.4% of the Group’s sales.

Staff costs for the year were approximately HK$150.1 million and mainly comprised of salaries paid to the frontline beauty staff based on a piecework basis, staff's base salaries and discretionary bonus, directors' remuneration and mandatory provident fund scheme contribution in the amounts of approximately HK$28.7 million, HK$98.1 million, HK$20.1 million and HK$3.2 million respectively. Depreciation and amortisation charges were approximately HK$24.5 million. Occupancy costs were approximately HK$55.4 million.

Other operating expenses were approximately HK$52.9 million, which mainly represented advertising and promotion expenses, building management fee, utility expenses and bank charges in amounts of approximately HK$6.5 million, HK$9.7 million, HK$10.1 million and HK$10.1 million, respectively.

The Group recorded profit before taxation of approximately HK$46.3 million representing an operating profit margin of approximately 13.9% for the year.

Year ended 31st March, 2004

Sales of the Group for the year ended 31st March, 2004 amounted to approximately HK$381.7 million, representing an increase of approximately 14.3% over that of 2003. Such increase in sales was primarily due to closing of service centers at less attractive locations and opening of new service centres in different places with a high level of pedestrian traffic such as Mongkok and Quarry Bay, which represented a net increase in the average total gross floor area of service centres by approximately 3,000 sq.ft., and increase in advertising and promotion campaigns. The above effect set off the adverse effect of SARS outbreak to the retail market in Hong Kong during the financial year. Out of the total sales, approximately 96.9% was derived from provision of beauty and healthcare services and approximately 3.1% from sales of beauty products and equipment. The sales mix had no significant difference as compared with that of 2003.

Other gains-net for the year was approximately HK$9.1 million, representing an increase of approximately HK$5.9 million from that of previous financial year. It mainly comprised of investment income of approximately HK$6.3 million and gross rental income of approximately HK$0.5 million. The increase in investment income of approximately HK$4.9 million from approximately HK$1.4 million for 2003 was mainly due to the increase in interest income of approximately HK$0.5 million and increase in fair value gains of approximately HK$3.4 million.

Cost of inventories sold was approximately HK$11.7 million, representing approximately 3.1% of the Group's sales, and was in line with that of 2003.

Staff costs for the year were approximately HK$151.5 million, which was similar to that of 2003. Staff costs mainly comprised of salaries paid to the frontline beauty staff on a piecework basis, staff's base salaries and discretionary bonus, directors' remuneration and mandatory provident fund scheme contribution in the amounts of approximately HK$30.6 million, HK$96.5 million, HK$19.1 million and HK$5.3 million respectively. Depreciation and amortisation charges were approximately HK$24.2 million, which was similar to that of 2003. Occupancy costs decreased from approximately HK$55.4 million in 2003 to approximately HK$48.2 million in 2004 due to better rental terms after the SARS disaster in early 2003.

Other operating expenses were approximately HK$82.2 million, which mainly represented advertising and promotion expenses, building management fee, utility expenses, bank charges in amounts of approximately HK$22.9 million, HK$9.7 million, HK$9.9 million, HK$15.6 million respectively. The increase of approximately HK$29.3 million from that of 2003 was mainly attributable to the increase in marketing and advertising expenses of HK$16.4 million from that of 2003 to penetrate into the market and attract more new customers. The increase in advertising expenses resulted from the increase in TV advertisement, magazine advertisement and appointment of spokespersons during the year ended 31st March, 2004. The increase in other operating expenses was also due to the increase in bank charges of approximately HK$5.5 million from that of 2003 as a result of shifting of payment preference by customers from one-off credit card payment to longer terms of credit card instalment payment.

The Group recorded profit before taxation of approximately HK$72.9 million representing an operating profit margin of approximately 19.1% for the year. Such an increase of approximately HK$26.6 million from that of 2003 was mainly contributed by increase in sales of HK$47.6 million from that of 2003.

As at 31st March, 2004, the Group had net assets of approximately HK$23.0 million which represented an increase of HK$61.5 million from net liabilities of approximately HK$38.5 million as at 31st March, 2003. The increase in deferred revenue from approximately HK$482.6 million as at 31st March, 2003 to HK$520.2 million as at 31st March, 2004 was due to the increase in number of new customers as well as additional prepayment from the existing customers.

Year ended 31st March, 2005

Sales of the Group for the year ended 31st March, 2005 amounted to approximately HK$456.9 million representing an increase of approximately 19.7% over that of 2004. Such increase in sales was mainly due to the recovery of the retail market in Hong Kong after the SARS outbreak which has led to an increase in sales, closure of service centres at less attractive locations and opening of new service centres in different places with a high level of pedestrian traffic in Causeway Bay, Wanchai and Tsuen Wan. This resulted in a net increase in the average total gross floor area of service centres by approximately 26,000 sq.ft. from that of 2004, and an increase in advertising and promotion campaigns. Out of the total sales, approximately 95.5% was derived from provision of beauty and healthcare services and approximately 4.5% from sales of beauty products and equipment. The sales mix had no significant difference as compared with that of 2004.

Other gains-net for the year were approximately HK$9.0 million, representing an decrease of approximately HK$0.1 million from that of the previous financial year. It mainly comprised interest income of approximately HK$6.6 million, gross rental income of approximately HK$0.7 million. Such increase was mainly due to increase in fixed deposits interest income received. The increase in the interest income was due to the increase in the average balances of pledged bank deposits and cash and cash equivalents approximately from HK$148 million in 2004 to HK$265 million in 2005 as well as the increase in bank interest rate.

Cost of inventories sold was approximately HK$12.1 million, represented approximately 2.6% of the Group's sales. The increase in cost of inventories sold by approximately HK$0.4 million or approximately 3.4% from that of the previous financial year was mainly attributed to the increase in sales for 2005.

Staff costs for the year were approximately HK$172.0 million, which increased by approximately HK$20.5 million or 13.5% from that of 2004. Staff costs mainly comprised of salaries paid to the frontline beauty staff based on a piecework basis, staff's base salaries and discretionary bonus, directors' remuneration and mandatory provident fund scheme contribution in the amounts of approximately HK$30.4 million HK$114.7 million, HK$20.4 million and HK$6.5 million respectively. Such increase was mainly attributable to increase in number of staff employed from approximately 799 staff as at 31st March, 2004 to approximately 890 staff as at 31st March, 2005, representing an increase of approximately 6.4%. Depreciation and amortisation charges were approximately HK$20.6 million, representing a decrease of HK$3.7 million from that of 2004. It was due to the closure of certain service centres upon the expiry of tenancy agreements and the fact that the Group made great efforts in controlling costs of leasehold improvements for new services centres opened during the year. The occupancy costs dropped from approximately HK$48.2 million in 2004 to approximately HK$42.1 million in 2005. This was mainly due to the better rental terms after the SARS disaster in early 2003. In addition, the Group purchased a property for its own use as office and warehouse instead of leasing.

Other operating expenses were approximately HK$92.4 million, which mainly represented advertising and promotion expenses, building management fee, utility expenses and bank charges in amounts of approximately HK$29.8 million, HK$10.9 million, HK$9.9 million and HK$19.1 million, respectively. The increase of approximately HK$10.2 million from that of 2004 was mainly attributable to the increase in advertising and promotional expenses and bank charges. For the advertising and promotional expenses, which were approximately HK$29.8 million representing an increase of approximately HK$6.9 million from that of the previous financial year. Such increase was due to the increase in roadshow expenses, billboard advertisement and magazine advertisement to attract more new customers and to increase the brand recognition. While for the bank charges, such increase of approximately HK$3.5 million was attributable to the shifting of payment preference by customers from shorter terms of credit card instalment payment to longer terms. An increase of approximately HK$1.2 million for the building management fee from that of 2004 was due to increase in gross floor area from approximately 184,000 sq.ft. in 2004 to 210,000 sq.ft. in 2005.

The Group recorded profit before taxation of approximately HK$126.7 million representing an operating profit margin of approximately 27.7% for the year. Such an increase of approximately HK$53.8 million was mainly attributable to the increase in sales for 2005.

As at 31st March, 2005, the Group had net assets of approximately HK$118.7 million which represented an increase of HK$95.7 million as compared to that as at 31st March, 2004.

Four months ended 31st July, 2005

Sales of the Group for the four months ended 31st July, 2005 amounted to approximately HK$150.9 million, of which approximately 93.9% was derived from the provision of beauty and healthcare services in Hong Kong and 6.1% from sales of beauty products and equipment. It represented a growth of approximately 3.2% from sales of approximately HK$146.2 million (unaudited) for the four months ended 31st July, 2004. Such increase was mainly due to the closure of services centres at less attractive locations and opening of new service centres in other places with a high level of pedestrian traffic, which resulted in a net increase in the average total gross floor area of service centres by approximately 18,000 sq.ft. or a net increase of approximately 8.8% from that for the four months ended 31st July, 2004.

Other gains-net for the four months ended 31st July, 2005 was approximately HK$7.1 million, which mainly comprised interest income of HK$3.3 million and fair value gains amounted to approximately HK$2.9 million. The increase of approximately HK$4.5 million from approximately HK$2.6 million (unaudited) for the four months ended 31st July, 2004 was mainly due to the increase in interest income of approximately HK$1.0 million as the average cash and cash equivalents increased from approximately HK$173 million in the four months ended 31st July, 2004 to HK$386 million in the four months ended 31st July, 2005 and increase in fair gains of approximately HK$2.8 million due to boost up in the stock market for the four months ended 31st July, 2005.

Cost of inventories sold was approximately HK$5.2 million for the four months ended 31st July, 2005, representing approximately 3.4% of the sales. It is comparable to the amount of approximately HK$5.1 million (unaudited) for the four months ended 31st July, 2004.

Staff costs for the four months ended 31st July, 2005 were approximately HK$55.6 million, which mainly comprised staff's base salaries and discretionary bonus, directors' remuneration, mandatory provident fund scheme contribution and salaries said to the frontline beauty staff based on a piecework basis in the amounts of approximately HK$38.1 million, HK$5.5 million, HK$2.2 million and 9.8 million respectively. It represented a slight decrease of approximately HK$2.2 million (unaudited) from that of the four months ended 31st July, 2004. Depreciation and amortisation charges were approximately HK$8.0 million which increased by HK$2.1 million as compared to approximately HK$5.9 million (unaudited) for the four months ended 31st July, 2004. Occupancy costs were approximately HK$15.4 million, which increased by approximately 9.2% as compared to that of 2004. Such increase was due to increase in rental floor areas. Other operating expenses were approximately HK$33.2 million, which mainly represented advertising and promotion expenses, building management fee, utility expenses and bank charges in amounts of approximately HK$8.8 million, HK$4.2 million, HK$3.5 million and HK$6.5 million respectively. An increase of HK$3.5 million from approximately HK$29.7 million (unaudited) for the four months ended 31st July, 2004 was mainly due to increase of approximately HK$0.8 million for the building management fee as a result of increased gross floor area from approximately 200,000 sq.ft. as at 31st July, 2004 to approximately 215,000 sq.ft. as at 31st July 2005, increase in utility expenses of approximately HK$0.5 million as compared to that of 2004 and increase in other sundries such as cleaning and sanitary, recruitment and staff uniform expenses etc.

The Group recorded profit before taxation of approximately HK$40.7 million with an operating profit margin of approximately 27.0% for the four months ended 31st July, 2005. The increase in profit before taxation of approximately HK$4.4 million from approximately HK$36.3 million (unaudited) for the four months ended 31st July, 2004 was mainly attributable to the increase in sales of approximately HK$4.7 million and the increase in interest income of approximately HK$1.0 million.

As at 31st July, 2005, the Group had net assets of approximately HK$34.9 million which represented a decrease of approximately HK$83.8 million as compared with HK$118.7 million as at 31st March, 2005. Such decrease was mainly due to the dividend payment of HK$118.0 million for the four months ended 31st July, 2005, which was settled in July 2005.

Inventory turnover days, trade receivables turnover days and trade payables turnover days

	Year ended 31st March,			Four months ended 31st July,
	2003	**2004**	**2005**	**2005**
Inventory turnover days [(1)]	444.2	179.8	199.2	152.3
Trade receivables turnover days [(2)]	8.2	9.1	23.8	24.6
Trade payables turnover days [(3)]	13.5	7.4	5.8	20.3

Notes:

(1) Inventory turnover days = Ending inventory balance / Cost of inventories sold x 365 days

(2) Trade receivables turnover days = Ending trade receivable balance / Turnover x 365 days

(3) Trade payables turnover days = Ending trade payable balance / Cost of inventories sold x 365 days

Inventories

Inventory provision policy

The Group's inventories mainly included beauty raw materials to be consumed in the provision of beauty, facial, spa, massage and slimming services and beauty products to be sold to customers in the Group's network of service centres. The Group has adopted an inventory provision policy to specifically write off those identified obsolete stocks, which are either not usable in the provision of beauty services or marketable to customers.

As a result of the cessation of the hair salon business line during the year ended 31st March, 2003, a specific write off of obsolete stocks amounting to approximately HK$336,000 was made during the year ended 31st March, 2004. No provision was made for the years ended 31st March, 2003 and 2005 and the four months ended 31st July, 2005.

Inventory turnover days

In order to enjoy discounts from bulk purchases, the Group used to maintain a higher level of beauty materials. This gave rise to a high average stock turnover days of approximately 444.2 days for the year ended 31st March, 2003. Since the year ended 31st March, 2004, the Group has revised its stock holding policy to maintain a lesser amount of stock to save the storage costs. Therefore the average stock turnover days for the year ended 31st March, 2004 decreased significantly to approximately 179.8 days. The average stock turnover days increased to 199.2 days for the year ended 31st March, 2005. The increase in the inventory turnover days from 179.8 days in 2004 to 199.2 days in 2005 was due to the increase in closing stocks of beauty products for subsequent development of the Group's beauty product sales business. The average stock turnover days decreased to 152.3 days for the four months ended 31st July, 2005 due to increased sales of products and equipment to JFH by approximately HK$2.5 million as compared to that of 2004 with the expected cessation of sales of products and equipment to JFH after September 2005.

Trade receivables

Trade receivables provision policy

The Group makes provision against trade receivables to the extent the amounts are considered to be uncollectible or unlikely to be collected within a reasonable period of time, which varies depending the credit terms granted to customers, creditworthiness and past payment histories of customers. Trade receivables aged over two years are generally deemed to be uncollectible or unlikely to be collected. Management of the Group specifically analyzes factors such as collectibility of individual accounts, customer creditworthiness, change in customer payment pattern, current economic situation to assess the adequacy of provision. For the three years ended 31st March, 2005 and the four months ended 31st July, 2005, no provision for doubtful debt had been made for the trade receivables as the debts were mainly due from credit card collection banks with good reputation.

Trade receivables turnover days

The trade receivables turnover days were 8.2, 9.1, 23.8 and 24.6 days for the three years ended 31st March, 2005 and the four months ended 31st July, 2005 respectively. Trade receivables mainly represent the amounts due from the credit card collection banks that the Group appoints to collect the sales proceeds arose from credit card sales. The trade receivables increased from approximately HK$7.5 million as at 31st March, 2003 to approximately HK$29.8 million as at 31st March, 2005. The increase in the trade receivables turnover days for the year ended 31st March, 2005 and four months ended 31st July, 2005 was due to the fact that more credit cardholders chose to settle their purchases by interest-free instalment plan for which the Group took longer processing time to receive the sales proceeds. Moreover, in order to obtain a favourable transaction charge, the Group sets up a collection arrangement with one of the credit card collection banks, under which sales proceeds were withheld by the bank for 60 days.

Trade payables

Trade payables turnover days

Trade payables arise from the purchases of beauty products, raw materials and equipment from local and overseas suppliers. Despite that the Group is normally granted a credit period of 30 days to 60 days by the Suppliers, the Group used to settle the trade payables promptly in order to obtain cash discount. Trade payables turnover days were 13.5, 7.4, 5.8 and 20.3 days for the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively.

Tax

The Company was incorporated under the laws of Cayman Islands and no provision for income tax in the Cayman Islands has been made as the Group had no assessable income derived from this jurisdiction for the three years ended 31st March, 2005 and the four months ended 31st July, 2005. The Group's profits are principally subject to Hong Kong profits tax only. Hong Kong profits tax has been provided at the rates of 16.0%, 17.5%, 17.5% and 17.5% on the estimated assessable profits arising in Hong Kong for each of the three years ended 31st March, 2005 and the four months ended 31st July, 2005, respectively.

The Group has adopted an actual utilization basis for income recognition of customers' prepayments for service treatments since the commencement of business, under which customers' prepaid deposits would be recognized as income when services are delivered to customers. The Hong Kong Inland Revenue Department ("IRD") had some concerns about the timing of recognizing the customers' prepayments for un-utilized service treatments and hence raised queries on the Group's profits tax returns for the six years of assessment from 1997/98 to 2002/03 in early 2004.

After several discussions with the IRD on the basis of income recognition, the Group and the IRD have reached a consensus on the income recognition policy for customers' prepayments that income is recognized when the service treatments are delivered to customers and in accordance with the terms of the underlying agreements over a period of not more than three years. Upon expiry of the agreements, the deferred revenue for unutilized prepaid service treatments are fully recognized except when the expiry dates extended at the discretion of the management. The Group has adopted the above income recognition policy since the year of assessment 2002/03 resulting in additional assessments with assessable profits of HK$151,069,178 and additional tax liabilities of HK$8,854,629 for the six years in question. The additional tax liabilities were mainly attributable to the additional revenue recognized for the six years in adopting the above income recognition policy. The Group settled the above sum in January 2005 and the tax case was settled in February 2005. The additional tax liabilities in relation to the additional assessable profits charged for the years ended from 31st March, 1998 to 2002 have been charged to the reserves as at 31st March, 2002. The portion of the additional tax liability in relation to the additional assessable profits charged for the year ended 31st March, 2003 has been reflected in the results for the year ended 31st March, 2003. The settlement of the total tax liability of HK$8,854,629 in February 2005 was included in the HK$16.4 million profit tax payment set out in the combined cash flow statement in the accountants' report of the Group set out in Appendix I to this prospectus.

A tax penalty of HK$930,000 was imposed by the Hong Kong Inland Revenue Department in respect of the directors' private expenses being claimed for tax deduction for the years of assessment from 1997/98 to 2002/03 and it was settled on 16th February, 2005. Subsequent to the tax audit case, the directors have been advised that all their private expenses should not be claimed as the Company's business expenses. In addition, the accounting team has taken additional control procedures to check the nature of expenses incurred or claimed by directors to ensure that no private expense would be paid by the Company.

For the three years ended 31st March, 2005 and the four months ended 31st July, 2005, the effective tax rates were approximately 15.7%, 15.7%, 17.0% and 16.1%, respectively.

PROPERTY INTERESTS

Property interests owned by the Group in Hong Kong

As at the Latest Practicable Date, the Group owns certain property interests situated at (i) Sino Industrial Plaza, No. 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong; (ii) Hou Feng Industrial Building, Nos. 1-5 Wing Kin Road, Kwai Chung, New Territories, Hong Kong; (iii) Hong Kong Worsted Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong; and (iv) Len Fat Mansion, Nos. 56-60, 64-86 Kin Yip Street, Yuen Long, New Territories, Hong Kong.

Property interests rented by the Group in Hong Kong

As at the Latest Practicable Date, the Group rented various premises in Hong Kong, details of which are set out in Appendix III to this prospectus.

Property valuation

Sallmanns (Far East) Limited, an independent valuer, had valued the property interests of the Group as at 31st October, 2005 at HK$57.1 million. The texts of the letter, summary of values and the valuation certificates issued by Sallmanns (Far East) Limited in respect of the property interests owned, rented and occupied by the Group are set out in Appendix III to this prospectus.

DIVIDENDS

The Directors are of the view that the amount of any dividends to be declared in the future will depend on, among other things, the Group's results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on the generally accepted accounting principles in Hong Kong, the applicable laws and regulations and all other relevant factors. The Directors currently intend to declare and recommend dividends which would in total amount to not less than 70% of the profit attributable to equity holders of the Company on a pro-rata basis for the year ending 31st March, 2006 and 60% for the financial year ending 31st March, 2007. Such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividend in such manner or declare and pay any dividend at all. The Directors expect the interim and final dividends (if any) generally to be paid in around January and September of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

The payment of dividends of approximately HK$9.4 million and HK$118.0 million for the year ended 31st March, 2005 and the four months ended 31st July, 2005 were financed by internal resources of the Group. The dividends of approximately HK$9.4 million for the year ended 31st March, 2005 and HK$118.0 million for the four months ended 31st July, 2005 were settled in December 2004 and July 2005 by setting off the current accounts with Ms. Tsang, respectively.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration of the financial resources available to the Group, including the internally generated funds and the estimated net proceeds of the New Issue, the Group has sufficient working capital for its present requirement, that is for at least the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

The Company was incorporated in the Cayman Islands on 19th August, 2005. There was no reserve available for distribution to shareholders of the Company as at 31st July, 2005 (being the date to which the latest audited combined financial statements of the Group were made up).

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31st July, 2005 (being the date to which the latest audited combined financial statements of the Group were made up).

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted net tangible assets of the Group which has been prepared for the purpose of illustrating the effect of the Share Offer as if it had taken place on 31st July, 2005 and based on the audited combined net tangible assets of the Group as at 31st July, 2005, as shown in the accountants' reports set out in Appendix I to this prospectus and is adjusted as follows:

	Audited combined net tangible assets of the Group as at 31st July, 2005	**Estimated net proceeds of the Share Offer**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per share**
		(Note 1)		*(Note 2)*
	HK$'000	*HK$'000*	*HK$'000*	*HK*
Based on the Offer Price of HK$0.88 per Share	34,861	144,395	179,256	24.9 cents
Based on the Offer Price of HK$1.08 per Share	34,861	179,495	214,356	29.8 cents

Notes:

1. The estimated net proceeds of the Share Offer are based on the Offer Price, after deduction of the underwriting fees and related expenses payable by the Company.

2. The unaudited pro forma adjusted net tangible assets per Share are arrived at after the adjustments referred to in this section and on the basis of 720,000,000 Shares in issue immediately after completion of the Share Offer but takes no account of any Pre-IPO Options which have been or may be granted under the Pre-IPO Share Option Scheme, referred to in the section headed "Pre-IPO Share Option Scheme" in Appendix V to this prospectus.

3. With reference to the valuation of the Group's property interests as set out in Appendix III to this prospectus, the aggregate revalued amount of the property interests of the Group was about HK$57.1 million as at 31st October, 2005. The net book value of these properties as at 31st July 2005 was about HK$41.5 million. Thus, the revaluation surplus is about HK$15.6 million, which has not been included in the above adjusted net tangible assets of the Group. Such a revaluation surplus will not be recognised in the Group's financial statements as the Group accounts for its property interests at cost. Had such revaluation surplus been recognised in the Group's financial statements for the year ended 31st March, 2005, additional depreciation charges of about HK$320,000 per annum would be incurred.

4. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31st July, 2005.

TREASURY POLICIES

The Directors believe that the current service income model provides the Group with stable cash inflows and substantial amount of surplus funds on hand. The Directors always take a conservative approach in the treasury and investment activities. As such, the major portion of the surplus funds will be held under fixed deposits, saving accounts as well as principal protected investments and the remaining portion will be allocated to certain investing activities to increase returns on the surplus funds. The Group will maintain a prudent investment policy under which the amount invested in other investments/financial assets, in general, shall not exceed 40% of the total amount of saving and current accounts and fixed deposits (excluding pledged bank deposits). In addition, other investments/financial assets shall generally comprise at least 60% principal protected investments in corporate/government funds and notes while the remaining 5%, 25% and 10% can be invested in corporate/government bonds, guaranteed return/low-risk funds and listed or other securities respectively. For investment other than principal protected investments, the amount normally invested in a particular product will be less than HK$20 million.

The following table sets out the proportion of the Group's investments in other investments/financial assets during the three years ended 31st March, 2005 and the current and future investment policy of the Group.

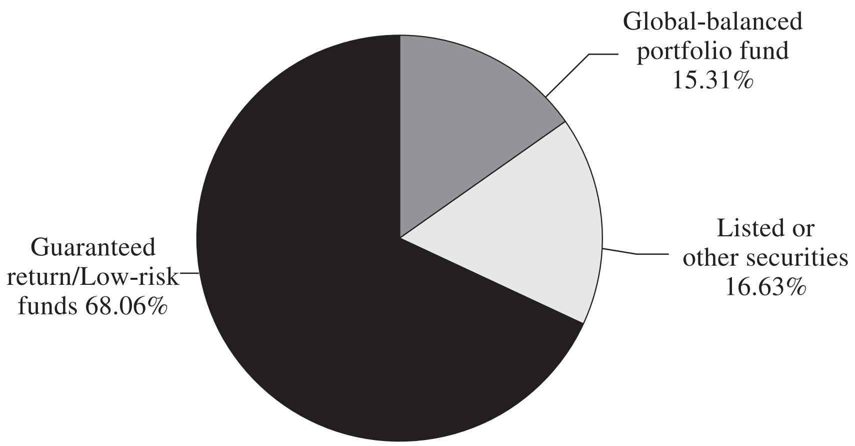
	2003	**2004**	**2005**	**Current and future investment policy**
Other investments/financial assets				
Principal protected funds/notes	0%	0%	0%	60%
Corporate/Government bonds	0%	0%	0%	5%
Guaranteed return/Low-risk funds	47%	52%	61%	25%
Global-balanced portfolio fund	0%	0%	14%	0%
Listed or other securities	53%	48%	25%	10%
	100%	100%	100%	100%

The Group has not appointed any professional fund manager to manage its investment portfolio. Investment decisions will only be made after seeking the senior management's approval. For any principal protected investments, the investments have to be endorsed by the Chief Financial Officer and approved by another Executive Director. For an investment other than principal protected investments with amount not exceeding HK$10 million, the decision has to be endorsed by the Chief Financial Officer and approved by at least another two Executive Directors. For investment other than principal protected investments which exceeds HK$10 million, the decision has to be endorsed by the Chief Financial Officer and approved by the Board of Directors. For the three years ended 31st March 2005 and the four months ended 31st July 2005, the company recorded fair value gains (realised and unrealised) of approximately HK$0.8 million, HK$4.2 million, HK$1.0 million and HK$2.9 million respectively and fair value losses (realised and unrealised) of approximately HK$1.4 million, HK$0.5

million, HK$0.07 million and HK$0.07 million respectively under this treasury and investment policy. The Directors believe that the current conservative treasury and investment policy is appropriate for the Company and the Directors confirm the listing proceeds will not be used for investment purpose.

As at 31st July, 2005, the Group had approximately HK$52.9 million in other investments/financial assets. Among which approximately HK$36.0 million have been invested in guaranteed return or low-risk funds, approximately HK$8.1 million in global-balanced portfolio fund and approximately HK$8.8 million in listed or other securities. Below is the portfolio status by other investments/financial assets as at 31st July, 2005:

By other investments/financial assets as at 31st July, 2005



Since August 2005, in order to protect its investment capital, the Group has adjusted its investment strategy by investing additional funds in principal protected funds/notes and reducing the proportion of listed or other securities in its portfolio in order to comply with its current investment policy set out in this section.

Most of the assets, receipts and payments of the Group are either in Hong Kong or U.S. dollars. However, the Group will monitor its foreign exchange position and, when appropriate, the Group will hedge its non U.S. dollar foreign exchange exposure by way of forward foreign exchange contracts.

As at 31st July, 2005, the Group's total shareholders' funds were approximately HK$34.9 million including reserves of approximately HK$34.8 million. The Group continued to maintain a strong financial position with cash and cash equivalents of approximately HK$318.7 million. The Group's net cash inflows from operation activities for the four months ended 31st July, 2005 was HK$56.0 million. Based on the Group's steady cash inflow from operations and coupled with its existing cash and bank facilities, the Group has adequate financial resources to fund its future operations.