



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

27th January, 2006

THE DIRECTORS

MODERN BEAUTY SALON HOLDINGS LIMITED SUN HUNG KAI INTERNATIONAL LIMITED

Dear Sirs

We set out below our report on the financial information relating to Modern Beauty Salon Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31st March, 2003, 2004 and 2005 and the four months ended 31st July, 2004 and 2005 (“the Relevant Periods”) for inclusion in the prospectus of the Company dated 27th January, 2006 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”).

The Company was incorporated in the Cayman Islands on 19th August, 2005 as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands. Pursuant to a group reorganisation as detailed in Note 1 of Section II of this report (the “Reorganisation”), which was completed on 24th January, 2006, the Company became the holding company of the subsidiaries as set out in Note 30 of Section II below.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 30 of Section II of this report, all of which are private limited liability companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private limited liability company. All companies now comprising the Group have adopted 31st March as their financial year end date.

No audited accounts have been prepared for the Company since its date of incorporation as it was newly incorporated and has not been involved in any business transactions other than the Reorganisation. In addition, no audited accounts have been prepared for Beauty Expert (B.V.I.) Limited (formerly known as Lion Key Limited), Modern Beauty Holdings Limited, Lucky Days Investments Inc., Joy East Limited, Wise World Limited, Key Ideal Investments Limited, Best Vantage Far East Limited, Euro Gem Beauty Products Limited (formerly known as Rich Elite Investments Limited) and Koladen Enterprises Inc. as they were either newly incorporated and/or have not involved in any significant business transactions during the Relevant Periods.

We acted as auditors of the subsidiaries for each of the years ended 31st March, 2003, 2004 and 2005 except for those companies (“those Companies”) as described in Note 30 of Section II. For the purpose of this report, we have carried out independent audit procedures on those Companies for the years ended 31st March, 2003, 2004 and 2005 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

We have examined the audited accounts or, where appropriate, the unaudited management accounts of all companies now comprising the Group for each of the three years ended 31st March, 2003, 2004 and 2005 and the four months ended 31st July, 2005 or since their respective dates of incorporation where this is a shorter period and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

We have reviewed the financial information for the four months ended 31st July, 2004 in accordance with SAS 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of the Group management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information for the four months ended 31st July, 2004.

The financial information as set out in Sections I to IV (“Financial Information”) has been prepared based on the audited accounts or, where appropriate, unaudited management accounts of all companies now comprising the Group, on the basis set out in Note 1 of Section II below, after making such adjustments as are appropriate. The directors of the respective Group companies, at the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the preparation of the Financial Information. It is our responsibility to form an independent opinion, based on our examination and review, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in Note 1 of Section II below, gives a true and fair view of the combined state of affairs of the Group as at 31st March, 2003, 2004 and 2005 and 31st July, 2005 and of the combined results and cash flows of the Group for the periods then ended.

Moreover, on the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the financial information for the four months ended 31st July, 2004.

I FINANCIAL INFORMATION OF THE GROUP

COMBINED BALANCE SHEETS

The following are the combined balance sheets of the Group as at 31st March, 2003, 2004 and 2005 and 31st July, 2005, prepared on the basis as set out in Note 1 below and after making such adjustments as are appropriate:

	<i>Section II</i>	As at 31st March,			As at
		<i>Note</i>	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	40,411	50,053	46,079	45,452
Leasehold land prepayments	6	3,745	12,966	10,527	27,764
Other investments/financial assets at fair value through profit or loss	7	17,447	29,553	57,785	52,845
Deferred tax assets	15	4,521	1,716	1,582	1,582
		<u>66,124</u>	<u>94,288</u>	<u>115,973</u>	<u>127,643</u>
Current assets					
Inventories	8	9,818	5,775	6,596	6,483
Trade and other receivables, deposits and prepayments	9	37,605	39,924	56,532	61,345
Amounts due from related companies	10	214,410	206,168	4,852	—
Amount due from a director	11	17,810	93,260	203,395	44,282
Taxation recoverable		—	—	—	2,413
Pledged bank deposits	28	44,531	51,520	51,520	86,520
Cash and cash equivalents	12	88,857	111,950	314,322	318,683
		<u>413,031</u>	<u>508,597</u>	<u>637,217</u>	<u>519,726</u>
Total assets		<u>479,155</u>	<u>602,885</u>	<u>753,190</u>	<u>647,369</u>
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	13	11	18	18	18
(Deficits)/reserves	14	(38,508)	22,967	118,717	34,843
Total equity		<u>(38,497)</u>	<u>22,985</u>	<u>118,735</u>	<u>34,861</u>
LIABILITIES					
Non-current liabilities					
Deferred tax liabilities	15	—	1,156	103	103

	<i>Section II</i>	As at 31st March,			As at
		2003	2004	2005	31st July,
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2005
					<i>HK\$'000</i>
Current liabilities					
Trade and other payables, deposits received and accrued expenses	16	15,271	19,805	19,494	26,133
Deferred revenue	17	482,554	520,205	549,932	562,652
Amounts due to related companies	18	10,590	22,616	42,673	—
Taxation payable		9,237	16,118	22,253	23,620
		<u>517,652</u>	<u>578,744</u>	<u>634,352</u>	<u>612,405</u>
Total liabilities		<u>517,652</u>	<u>579,900</u>	<u>634,455</u>	<u>612,508</u>
Total equity and liabilities		<u>479,155</u>	<u>602,885</u>	<u>753,190</u>	<u>647,369</u>
Net current (liabilities)/assets		<u>(104,621)</u>	<u>(70,147)</u>	<u>2,865</u>	<u>(92,679)</u>
Total assets less current liabilities		<u>(38,497)</u>	<u>24,141</u>	<u>118,838</u>	<u>34,964</u>

The notes on pages I-9 to I-45 are an integral part of this Financial Information.

COMBINED INCOME STATEMENTS

The following are the combined income statements of the Group for the Relevant Periods, prepared on the basis as set out in Note 1 below and after making such adjustments as are appropriate:

	<i>Section II</i>	For the year ended 31st March,			For the four months ended 31st July,	
		2003	2004	2005	2004	2005
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	Unaudited	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales	4	334,042	381,656	456,932	146,208	150,905
Other gains — net	19	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	21	(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		<u>(52,863)</u>	<u>(82,213)</u>	<u>(92,442)</u>	<u>(29,653)</u>	<u>(33,183)</u>
Profit before taxation	20	46,264	72,944	126,743	36,310	40,671
Taxation	22	<u>(7,269)</u>	<u>(11,453)</u>	<u>(21,572)</u>	<u>(5,662)</u>	<u>(6,545)</u>
Profit for the year/period attributable to equity holders of the Company		<u>38,995</u>	<u>61,491</u>	<u>105,171</u>	<u>30,648</u>	<u>34,126</u>
Dividends	24	<u>—</u>	<u>—</u>	<u>9,400</u>	<u>—</u>	<u>118,000</u>

The notes on pages I-9 to I-45 are an integral part of this Financial Information.

COMBINED STATEMENTS OF CHANGES IN EQUITY

The following are the combined statements of changes in equity of the Group for the Relevant Periods, prepared on the basis as set out in Note 1 below and after making such adjustments as are appropriate:

	<i>Section II</i>	For the year ended 31st March,			For the four months ended 31st July,	
		2003	2004	2005	2004	2005
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	Unaudited	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity as at the beginning of the year/period		(77,499)	(38,497)	22,985	22,985	118,735
Profit for the year/period		38,995	61,491	105,171	30,648	34,126
Share capital issued		—	7	—	—	—
Effect of reorganisation	14	7	(16)	(21)	—	—
Dividends	24	—	—	(9,400)	—	(118,000)
Total equity as at the end of the year/period		<u>(38,497)</u>	<u>22,985</u>	<u>118,735</u>	<u>53,633</u>	<u>34,861</u>

The notes on pages I-9 to I-45 are an integral part of this Financial Information.

COMBINED CASH FLOW STATEMENTS

The following are the combined cash flow statements of the Group for the Relevant Periods, prepared on the basis as set out in Note 1 below and after making such adjustments as are appropriate:

	<i>Section II</i>	For the year ended 31st March,			For the four months ended 31st July,	
		2003	2004	2005	2004	2005
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	Unaudited	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities						
Profit for the year/period		38,995	61,491	105,171	30,648	34,126
Adjustments for:						
Taxation	22	7,269	11,453	21,572	5,662	6,545
Amortisation of leasehold land prepayments	6	86	302	302	102	121
Depreciation of property, plant and equipment	5	24,440	23,926	20,267	5,795	7,862
Interest income		(1,577)	(2,087)	(6,631)	(2,237)	(3,283)
Provision for inventories		—	(336)	—	—	—
Gains on disposal of leasehold land and buildings		—	—	(2,620)	—	—
Loss/(gain) on disposal of property, plant and equipment		782	478	2,488	—	(45)
Fair value losses/(gains) on revaluation of other investments/financial assets at fair value through profit or loss - unrealised and realised		576	(3,708)	(932)	135	(2,860)
Dividend income from other investments/financial assets at fair value through profit or loss		(406)	(491)	(180)	(115)	(123)
Operating cash flow before working capital changes		70,165	91,028	139,437	39,990	42,343
Decrease/(increase) in inventories		419	4,379	(821)	(337)	113
Increase in trade and other receivables, deposits and prepayments		(3,767)	(2,319)	(16,608)	(2,600)	(4,813)
(Increase)/decrease in amounts due from related companies		(4,984)	8,242	191,916	(2,237)	4,852
(Increase)/decrease in amount due from a director		(43,391)	(75,450)	(110,135)	(41,002)	41,113
Increase/(decrease) in trade and other payables, deposits received and accrued expenses		1,062	4,534	(311)	(1,010)	6,639
Increase in deferred revenue		2,074	37,651	29,727	25,782	12,720
Increase/(decrease) in amounts due to related companies		8,093	12,026	20,057	(2,155)	(42,673)
Cash inflows from operations		29,671	80,091	253,262	16,431	60,294
Interest received		1,577	2,087	6,631	2,237	3,283
Hong Kong profits tax (paid)/refunded		(808)	(611)	(16,356)	226	(7,591)
Net cash inflows from operating activities		30,440	81,567	243,537	18,894	55,986

	<i>Section II</i>	For the year ended 31st March,			For the four months ended 31st July,	
		2003	2004	2005	2004	2005
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	
Cash flows from investing activities						
Purchase of leasehold land and buildings	6	—	(19,490)	—	—	(20,038)
Proceeds from disposal of leasehold land and buildings		—	—	7,080	—	—
Purchase of property, plant and equipment	5	(4,764)	(25,210)	(21,850)	(718)	(4,583)
Proceeds from disposal of property, plant and equipment		209	1,131	746	—	73
Purchase of other investments/financial assets at fair value through profit or loss	7	—	(40,100)	(27,300)	—	—
Proceeds from disposal of other investments/financial assets at fair value through profit or loss		—	31,702	—	—	7,800
Dividends received from other investments/financial assets at fair value through profit or loss		406	491	180	115	123
Increase in pledged bank deposits		(44,531)	(6,989)	—	—	(35,000)
Effect of reorganisation	14	7	(16)	(21)	—	—
Net cash outflows from investing activities		<u>(48,673)</u>	<u>(58,481)</u>	<u>(41,165)</u>	<u>(603)</u>	<u>(51,625)</u>
Cash flows from financing activities						
Proceeds from shares capital issued		—	7	—	—	—
Net cash inflows from financing activities		<u>—</u>	<u>7</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net (decrease)/increase in cash and cash equivalents		(18,233)	23,093	202,372	18,291	4,361
Cash and cash equivalents at beginning of the year/period		107,090	88,857	111,950	111,950	314,322
Cash and cash equivalents at end of the year/period	12	<u>88,857</u>	<u>111,950</u>	<u>314,322</u>	<u>130,241</u>	<u>318,683</u>

The notes on pages I-9 to I-45 are an integral part of this Financial Information.

II NOTES TO THE FINANCIAL INFORMATION

1 Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 19th August, 2005 with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. The Company is an investment holding company and the Group is principally engaged in the provision of beauty and healthcare services and the sale of beauty products and equipment.

A group reorganisation (“Reorganisation”) was undertaken in anticipation of the listing of the Company’s shares on the Main Board of the Hong Kong Stock Exchange of Hong Kong Limited comprising mainly the following:

- (a) Three investment holding companies, namely Koladen Enterprises Inc. (“KEI”), Silver Compass Holdings Corporation (“SCHC”) and Silver Hendon Enterprises Corporation (“SHEC”) were established and incorporated in the British Virgin Islands (“BVI”) on 28th July, 2005, 26th July, 2005 and 15th July, 2005, respectively. These companies were wholly owned by a director of the Company, Tsang Yue, Joyce.
- (b) On 31st August, 2005, 50 shares in KEI were allotted and issued to each of SCHC and SHEC at par.
- (c) On 24th January, 2006, KEI entered into an agreement with Tsang Yue, Joyce and a related company of the Group, Redwood Hot Limited, which was wholly owned by Tsang Yue, Joyce, to acquire the entire issued share capital of Modern Beauty Holdings Limited (“MBHL”) at a consideration of HK\$1.
- (d) On 24th January, 2006, KEI entered into another agreement with Tsang Yue, Joyce and another related company of the Group, New Consultants Limited, which was also wholly owned by Tsang Yue, Joyce, to acquire the entire issued share capital of Modern Beauty Saloon Limited (“MBS”) by paying HK\$0.9 and HK\$0.1 as consideration to New Consultants Limited and Tsang Yue, Joyce respectively.
- (e) On 24th January, 2006, KEI acquired the entire issued share capital of Modern Beauty Salon (HK) Limited (“MBSHK”) from Lee Soo Ghee and Mok Ka Ho, each of whom held 50 per cent of the issued share capital of MBSHK in trust and on behalf of Tsang Yue, Joyce, by paying HK\$0.5 each to Lee Soo Ghee and Mok Ka Ho as consideration.
- (f) On 24th January, 2006, the Company acquired the entire shares in KEI from SCHC and SHEC. The consideration was satisfied by the issue and allotment of 367,199,949 shares and 172,799,976 shares to SCHC and SHEC respectively, credited as fully paid. The Company then became the holding company of the companies comprising the Group.

The Reorganisation was completed on 24th January, 2006. Accordingly the Company became the holding company of the companies now comprising the Group. Details of the companies now comprising the Group are set out in Note 30 of this Section.

For the purpose of this report, the accompanying combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods, include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since the effective dates of incorporation of the companies to 31st July, 2005.

The accompanying combined balance sheets of the Group have been prepared to present the financial position of the Group as at 31st March, 2003, 2004 and 2005 and 31st July, 2005 as if the current group structure had been in existence at these dates.

All significant intra-group transactions and balances have been eliminated on combination.

II NOTES TO THE FINANCIAL INFORMATION**1 Group reorganisation and basis of preparation — (continued)**

This Financial Information is presented in thousands of units of HK dollars (HK\$'000), unless otherwise stated.

2 Principal accounting policies

The principal accounting policies applied in the preparation of the Financial Information, which are in conformity with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The Financial Information have been prepared under the historical cost convention, as modified by the revaluation of other investments / financial assets at fair value through profit and loss.

(a) The adoption of new/revised Hong Kong Reporting Standards

The HKICPA has issued a number of new/revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations, herein collectively referred to as the new/revised HKFRS, which are effective for accounting periods commencing on or after 1st January, 2005.

In preparing the Financial Information for the period ended 31st July, 2006, the Company adopted the new/revised standards and Interpretations of HKFRS, which are relevant to its operations. The 31st March, 2003, 2004, 2005 and 31st July, 2004 comparatives have been amended as required, in accordance with the relevant requirements.

The adoption of these new/revised HKFRS has no material impact on the Financial Information. The major impacts have been summarised below:

The adoption of HKAS 1 has affected the presentation of certain disclosures.

The adoption of HKAS 17 has resulted a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to leasehold land prepayments. The up-front prepayments made for leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of lease, or where there is impairment, the impairment is expensed in the profit and loss account.

The adoption of HKAS 32 and 39 has resulted a change in the accounting policy relating to the classification of other investments/financial assets through profit and loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

All changes in the accounting policies have been retrospectively made in accordance with the respective transitional provisions, wherever required or allowed. The accounting policies set out below have been consistently applied throughout the Track Record Period, other than HKAS 39 which generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

II NOTES TO THE FINANCIAL INFORMATION**2 Principal accounting policies (continued)****(b) Foreign currency translation****(i) Functional currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The combined financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Leasehold land prepayments

Leasehold land prepayments are up-front payments to acquire long-term interests in owner-occupied properties. These payments are stated at cost and are amortised as an expense on a straight-line basis over the period of the lease.

(d) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment losses. 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 expensed 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	4 years
— Furniture and fixtures	4 years
— Motor vehicles	3 years
— Computers	3 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

II NOTES TO THE FINANCIAL INFORMATION**2 Principal accounting policies (continued)****(e) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(f) Other investments/financial asset at fair value through profit and loss

From 1 April 2002 to 31 March 2005:

The Group classified its investments as other investments and carried at fair value in accordance with Statement of Standard Accounting Practice 24 Accounting for Investments in Securities ("SSAP 24"). At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profit or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arised.

From 1 April 2005 onwards:

The Group reclassifies its other investments as financial assets at fair value through profit and loss in accordance with HKAS 39. Financial assets at fair value through profit and loss were carried at fair value. At balance sheet date, the net unrealised gains or losses arising from the changes in fair value of the financial asset were recognised in the income statement. The HKAS has not been applied retrospectively as the HKAS 39 generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. There is no changes in the accounting treatment/recognition of these investments as a result of the adoption of HKAS 39 and there is no adjustment to the retained earnings as a result of the adoption of HKAS 39.

A financial asset is classified as financial asset at fair value through profit and loss if acquired principally for the purpose of selling in the short term or if so designated by management.

Purchases and sales of such investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all other investments/financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Other investments/financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'other investments/financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of other investments/financial assets is impaired.

II NOTES TO THE FINANCIAL INFORMATION**2 Principal accounting policies (continued)****(g) Inventories**

Inventories, which comprise goods held for resale, are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis for inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares, other than on a business combination, are taken to equity as a deduction, net of tax, from the proceeds.

(k) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

II NOTES TO THE FINANCIAL INFORMATION**2 Principal accounting policies (continued)****(1) Employee benefits (continued)****(ii) Bonus plans**

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Retirement benefit costs

The Group operates a mandatory provident fund scheme ("MPF Scheme") for its employees in Hong Kong. The assets of the MPF scheme are held separately from those of the Group in independent administered funds.

Both the Group and the employees are required to contribute 5% of the employees' relevant income, subject to a maximum of HK\$1,000 per employee per month. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and prepaid contributions are recognised as an asset to the extent that a cash refund is available.

(iv) Termination benefits

Termination benefits are payable according to local labour regulation whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

(m) Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

II NOTES TO THE FINANCIAL INFORMATION**2 Principal accounting policies (continued)****(n) Revenue recognition**

Revenue comprises the fair value for the rendering of services and sales of goods, net of returns and discounts, and after eliminating sales within the Group.

Revenue from provision of beauty and healthcare services is recognised in proportion when services are rendered. Payments that are related to services not yet rendered are deferred and shown as deferred revenue in balance sheet. Upon expiry of prepaid packages, the corresponding deferred revenue is fully recognised.

Revenue from the sale of beauty products and equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the products and equipment are delivered to customers.

Interest income is recognised on a time proportion basis using the effective interest method. Rental income from operating leases on properties is recognised on a straight-line basis over the lease term.

(o) Leases**(i) Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(p) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events only wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

II NOTES TO THE FINANCIAL INFORMATION**2 Principal accounting policies (continued)****(q) Dividend distribution**

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(r) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

3 Financial risk management**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk**(i) Foreign exchange risk**

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the combined balance sheet as other investments/financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. Sales to retail customers are made in cash or via major credit cards.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

II NOTES TO THE FINANCIAL INFORMATION**3 Financial risk management (continued)****3.1 Financial risk factors (continued)****(d) Interest rate risk**

The Group has significant interest-bearing assets mainly in the form of cash and cash equivalents. As a result, the Group is exposed to changes in market interest rates.

3.2 Fair value estimation

The carrying amounts of the following other investments/financial assets and liabilities approximate their fair value: cash and cash equivalents, pledged bank deposits, trade and other receivables less credit adjustments, deposits and prepayments, amounts due from/to related parties and a director, trade and other payables, deposits received and accrued expenses.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for other investments/financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

4 Segment information

The Group was organised into two main business segments during the Relevant Periods:

- (a) Provision of beauty and healthcare services; and
- (b) Sale of beauty products and equipment.

II NOTES TO THE FINANCIAL INFORMATION

4 Segment information (continued)

No analysis of the Group's segment information by geographical segments is presented as the Group solely provides beauty and healthcare services in Hong Kong and over 90% of its sales were made to customers located in Hong Kong. The inter-segment sales were transacted on a cost basis.

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	2004	2005
	HK\$'000	HK\$'000	HK\$'000	Unaudited 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	<u>7,772</u>	<u>44,750</u>	<u>58,394</u>	<u>16,297</u>	<u>13,317</u>
Total gross sales for beauty and healthcare services	<u>316,046</u>	<u>369,917</u>	<u>436,197</u>	<u>139,516</u>	<u>141,654</u>
Total gross sales for sale of products and equipment	47,938	35,547	28,492	8,839	11,947
Inter-segment sales	<u>(29,942)</u>	<u>(23,808)</u>	<u>(7,757)</u>	<u>(2,147)</u>	<u>(2,696)</u>
	<u>17,996</u>	<u>11,739</u>	<u>20,735</u>	<u>6,692</u>	<u>9,251</u>
Total sales	<u><u>334,042</u></u>	<u><u>381,656</u></u>	<u><u>456,932</u></u>	<u><u>146,208</u></u>	<u><u>150,905</u></u>
Segment results:					
Provision of beauty and healthcare services	69,699	103,818	152,933	45,466	47,961
Sale of beauty products and equipment	<u>10,808</u>	<u>8,146</u>	<u>12,951</u>	<u>3,939</u>	<u>6,080</u>
	80,507	111,964	165,884	49,405	54,041
Other gains — net	3,202	9,092	9,019	2,571	7,126
Unallocated costs	<u>(37,445)</u>	<u>(48,112)</u>	<u>(48,160)</u>	<u>(15,666)</u>	<u>(20,496)</u>
Profit before taxation	46,264	72,944	126,743	36,310	40,671
Taxation	<u>(7,269)</u>	<u>(11,453)</u>	<u>(21,572)</u>	<u>(5,662)</u>	<u>(6,545)</u>
Profit for the year/period	<u><u>38,995</u></u>	<u><u>61,491</u></u>	<u><u>105,171</u></u>	<u><u>30,648</u></u>	<u><u>34,126</u></u>

II NOTES TO THE FINANCIAL INFORMATION

4 Segment information (continued)

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Segment assets:				
Provision of beauty and healthcare services	80,458	92,774	103,189	124,498
Sale of beauty products and equipment	<u>3,273</u>	<u>8,274</u>	<u>9,404</u>	<u>6,837</u>
	83,731	101,048	112,593	131,335
Unallocated assets	<u>395,424</u>	<u>501,837</u>	<u>640,597</u>	<u>516,034</u>
Total assets	<u><u>479,155</u></u>	<u><u>602,885</u></u>	<u><u>753,190</u></u>	<u><u>647,369</u></u>
Segment liabilities:				
Provision of beauty and healthcare services	(497,131)	(533,618)	(568,164)	(585,311)
Sale of beauty products and equipment	<u>(695)</u>	<u>(6,392)</u>	<u>(1,262)</u>	<u>(3,474)</u>
	(497,826)	(540,010)	(569,426)	(588,785)
Unallocated liabilities	<u>(19,826)</u>	<u>(39,890)</u>	<u>(65,029)</u>	<u>(23,723)</u>
Total liabilities	<u><u>(517,652)</u></u>	<u><u>(579,900)</u></u>	<u><u>(634,455)</u></u>	<u><u>(612,508)</u></u>
Other information:				
Capital expenditure				
Provision of beauty and healthcare services	4,764	35,030	21,850	22,338
Sale of beauty products and equipment	—	9,670	—	—
Unallocated	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,283</u>
	<u>4,764</u>	<u>44,700</u>	<u>21,850</u>	<u>24,621</u>
Depreciation and amortisation				
Provision of beauty and healthcare services	24,348	23,901	20,242	7,740
Sale of beauty products and equipment	—	149	149	177
Unallocated	<u>178</u>	<u>178</u>	<u>178</u>	<u>66</u>
	<u>24,526</u>	<u>24,228</u>	<u>20,569</u>	<u>7,983</u>

II NOTES TO THE FINANCIAL INFORMATION

5 Property, plant and equipment

	Leasehold buildings	Leasehold improve- ments	Equipment and machinery	Furniture and fixtures	Motor vehicles	Computers	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April, 2002							
Cost	4,290	71,802	38,247	5,633	6,708	451	127,131
Accumulated depreciation	(93)	(34,331)	(24,618)	(3,891)	(2,935)	(185)	(66,053)
Net book amount	<u>4,197</u>	<u>37,471</u>	<u>13,629</u>	<u>1,742</u>	<u>3,773</u>	<u>266</u>	<u>61,078</u>
Year ended 31st March, 2003							
Opening net book amount	4,197	37,471	13,629	1,742	3,773	266	61,078
Additions	—	998	3,682	81	—	3	4,764
Disposal/written off	—	(772)	(218)	(1)	—	—	(991)
Depreciation	(93)	(13,565)	(7,786)	(784)	(2,069)	(143)	(24,440)
Closing net book amount	<u>4,104</u>	<u>24,132</u>	<u>9,307</u>	<u>1,038</u>	<u>1,704</u>	<u>126</u>	<u>40,411</u>
As at 31st March, 2003							
Cost	4,290	70,013	41,542	5,712	6,707	454	128,718
Accumulated depreciation	(186)	(45,881)	(32,235)	(4,674)	(5,003)	(328)	(88,307)
Net book amount	<u>4,104</u>	<u>24,132</u>	<u>9,307</u>	<u>1,038</u>	<u>1,704</u>	<u>126</u>	<u>40,411</u>
Year ended 31st March, 2004							
Opening net book amount	4,104	24,132	9,307	1,038	1,704	126	40,411
Additions	9,967	18,542	3,829	97	2,348	394	35,177
Disposal/written off	—	(1,425)	(164)	(20)	—	—	(1,609)
Depreciation	(320)	(14,555)	(6,789)	(681)	(1,475)	(106)	(23,926)
Closing net book amount	<u>13,751</u>	<u>26,694</u>	<u>6,183</u>	<u>434</u>	<u>2,577</u>	<u>414</u>	<u>50,053</u>
As at 31st March, 2004							
Cost	14,256	69,455	44,245	5,062	7,920	848	141,786
Accumulated depreciation	(505)	(42,761)	(38,062)	(4,628)	(5,343)	(434)	(91,733)
Net book amount	<u>13,751</u>	<u>26,694</u>	<u>6,183</u>	<u>434</u>	<u>2,577</u>	<u>414</u>	<u>50,053</u>

II NOTES TO THE FINANCIAL INFORMATION

5 Property, plant and equipment (continued)

	Leasehold buildings	Leasehold improve- ments	Equipment and machinery	Furniture and fixtures	Motor vehicles	Computers	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31st March, 2005							
Opening net book amount	13,751	26,694	6,183	434	2,577	414	50,053
Additions	—	11,613	7,058	207	2,047	925	21,850
Disposal/written off	(2,323)	(2,834)	—	—	(400)	—	(5,557)
Depreciation	(319)	(12,953)	(4,977)	(223)	(1,264)	(531)	(20,267)
Reclassification	—	—	(72)	—	—	72	—
Closing net book amount	<u>11,109</u>	<u>22,520</u>	<u>8,192</u>	<u>418</u>	<u>2,960</u>	<u>880</u>	<u>46,079</u>
As at 31st March, 2005							
Cost	11,815	74,200	49,924	5,123	8,854	3,440	153,356
Accumulated depreciation	(706)	(51,680)	(41,732)	(4,705)	(5,894)	(2,560)	(107,277)
Net book amount	<u>11,109</u>	<u>22,520</u>	<u>8,192</u>	<u>418</u>	<u>2,960</u>	<u>880</u>	<u>46,079</u>
Period ended 31st July, 2005							
Opening net book amount	11,109	22,520	8,192	418	2,960	880	46,079
Additions	2,680	6	1,267	94	2,780	436	7,263
Disposal/written off	—	—	(28)	—	—	—	(28)
Depreciation	(94)	(5,084)	(1,051)	(35)	(1,423)	(175)	(7,862)
Closing net book amount	<u>13,695</u>	<u>17,442</u>	<u>8,380</u>	<u>477</u>	<u>4,317</u>	<u>1,141</u>	<u>45,452</u>
As at 31st July, 2005							
Cost	14,495	74,206	50,938	5,217	11,634	3,876	160,366
Accumulated depreciation	(800)	(56,764)	(42,558)	(4,740)	(7,317)	(2,735)	(114,914)
Net book amount	<u>13,695</u>	<u>17,442</u>	<u>8,380</u>	<u>477</u>	<u>4,317</u>	<u>1,141</u>	<u>45,452</u>

II NOTES TO THE FINANCIAL INFORMATION

6 Leasehold land prepayments

The movement of the Group's interests in leasehold land prepayments representing prepaid operating lease payments and their net book value are analysed as follows:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
At beginning of the year/period	3,831	3,745	12,966	10,527
Additions	—	9,523	—	17,358
Amortisation	(86)	(302)	(302)	(121)
Disposal	—	—	(2,137)	—
	<u>—</u>	<u>—</u>	<u>(2,137)</u>	<u>—</u>
At end of the year/period	<u>3,745</u>	<u>12,966</u>	<u>10,527</u>	<u>27,764</u>

The lease periods of leasehold land prepayments are analysed as follows:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
In Hong Kong held on:				
Leases of between 10 to 50 years	<u>3,745</u>	<u>12,966</u>	<u>10,527</u>	<u>27,764</u>

7 Other investments/financial assets at fair value through profit or loss

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
At beginning of the year/period	18,023	17,447	29,553	57,785
Additions	—	40,100	27,300	—
Fair value (losses)/gains - unrealised	(576)	546	932	2,860
Disposal	—	(28,540)	—	(7,800)
	<u>—</u>	<u>(28,540)</u>	<u>—</u>	<u>(7,800)</u>
At end of the year/period	<u>17,447</u>	<u>29,553</u>	<u>57,785</u>	<u>52,845</u>

II NOTES TO THE FINANCIAL INFORMATION

7 Other investments/financial assets at fair value through profit or loss (continued)

Other investments/financial assets at fair value through profit or loss include the following:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Equity securities listed in Hong Kong at market value	9,174	6,302	6,533	8,827
Unlisted funds investing in equity and debt securities	<u>8,273</u>	<u>23,251</u>	<u>51,252</u>	<u>44,018</u>
	<u>17,447</u>	<u>29,553</u>	<u>57,785</u>	<u>52,845</u>

As at 31st March, 2003, 2004, 2005 and 31st July, 2005, unlisted funds of aggregate carrying amounts of HK\$8,273,444, HK\$8,414,655, HK\$8,592,480 and HK\$8,672,040 respectively have been pledged to a bank to secure credit facilities granted to a subsidiary.

8 Inventories

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Inventories	<u>9,818</u>	<u>5,775</u>	<u>6,596</u>	<u>6,483</u>

The Group made a provision of approximately HK\$336,000 for obsolete inventories at 31st March, 2004. The amount was included in other operating expenses in the income statement.

II NOTES TO THE FINANCIAL INFORMATION

9 Trade and other receivables, deposits and prepayments

	As at 31st March,			As at
	2003	2004	2005	31st July,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	7,501	9,529	29,849	30,441
Deposits and prepayments	22,264	29,365	24,771	29,390
Other receivables	<u>7,840</u>	<u>1,030</u>	<u>1,912</u>	<u>1,514</u>
	<u>37,605</u>	<u>39,924</u>	<u>56,532</u>	<u>61,345</u>

An ageing analysis of trade receivables as at the balance sheets dates is as follows:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	<u>7,501</u>	<u>9,529</u>	<u>29,849</u>	<u>30,441</u>

10 Amounts due from related companies

Name	Balance as at	Maximum
	31st March, 2003 <i>HK\$'000</i>	outstanding balance for the year ended 31st March, 2003 <i>HK\$'000</i>
All Link International Limited	3,052	3,052
Beauty Expert Product Limited	529	1,177
Chain Tech International Limited	55	55
Ho Ching Him International Limited	24	24
Modern Beauty Salon (South Bridge) Pte Limited	9,358	9,358
Money Chain Limited	5	5
New Consultants Limited	200,533	200,533
United Industries Limited	<u>854</u>	854
	<u>214,410</u>	

II NOTES TO THE FINANCIAL INFORMATION

10 Amounts due from related companies (continued)

Name	Balance as at 31st March, 2004 <i>HK\$'000</i>	Maximum outstanding balance for the year ended 31st March, 2004 <i>HK\$'000</i>
All Link International Limited	3,104	3,104
Beauty Expert Product Limited	546	546
Chain Tech International Limited	164	164
Ho Ching Him International Limited	34	34
Modern Beauty Salon (South Bridge) Pte Limited	616	9,358
Money Chain Limited	6	6
New Consultants Limited	200,549	200,549
United Industries Limited	1,039	1,039
Andy & Ho Design and Advertising Limited	10	10
Senex Investments Limited	83	83
Forever Keys Limited	5	5
Redwood Hot Limited	6	6
Go2Win Limited	6	6
	<u>206,168</u>	

Name	Balance as at 31st March, 2005 <i>HK\$'000</i>	Maximum outstanding balance for the year ended 31st March, 2005 <i>HK\$'000</i>
All Link International Limited	—	3,104
Beauty Expert Product Limited	—	546
Chain Tech International Limited	—	164
Ho Ching Him International Limited	—	34
Modern Beauty Salon (South Bridge) Pte Limited	4,800	4,800
Money Chain Limited	—	6
New Consultants Limited	—	200,549
United Industries Limited	—	1,039
Andy & Ho Design and Advertising Limited	—	10
Senex Investments Limited	—	83
Forever Keys Limited	12	12
Redwood Hot Limited	11	11
Go2Win Limited	13	13
Luck Elegant Industrial Limited	8	8
Union World International Limited	8	8
	<u>4,852</u>	

II NOTES TO THE FINANCIAL INFORMATION

10 Amounts due from related companies (continued)

Name	Balance as at 31st July, 2005 <i>HK\$'000</i>	Maximum outstanding balance for the period ended 31st July, 2005 <i>HK\$'000</i>
Modern Beauty Salon (South Bridge) Pte Limited	—	11,436
Forever Keys Limited	—	12
Redwood Hot Limited	—	19
Go2Win Limited	—	13
Luck Elegant Industrial Limited	—	8
Union World International Limited	—	8
	<u>—</u>	
	<u>—</u>	

The amounts due from related companies are unsecured, interest free and repayable on demand. Tsang Yue, Joyce, a director of the Company, has 100% equity interest in all of the above related companies.

11 Amount due from a director

Name	Beginning balance for the year ended 31st March, 2003 <i>HK\$'000</i> <i>(unaudited)</i>	As at 31st March,			As at 31st July, 2005 <i>HK\$'000</i>
		2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	
Tsang Yue, Joyce	<u>—</u>	<u>17,810</u>	<u>93,260</u>	<u>203,395</u>	<u>44,282</u>
Maximum outstanding balance during the year/period		<u>17,810</u>	<u>93,260</u>	<u>203,395</u>	<u>203,395</u>

Amount due from a director is unsecured, interest free and repayable on demand. The balance has been fully settled on 1st November, 2005.

II NOTES TO THE FINANCIAL INFORMATION

12 Cash and cash equivalents

For the purposes of the combined cash flow statements, the combined cash and cash equivalents comprise the following:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
Cash and cash equivalents	<u>88,857</u>	<u>111,950</u>	<u>314,322</u>	<u>318,683</u>

The effective interest rates on the cash and cash equivalents were ranging of 0.5% to 6.8%, ranging of 0.01% to 1.32% and ranging of 0.01% to 3.09% for years ended 31st March, 2003, 2004 and 2005 and ranging of 0.5% to 4.9% for the period ended 31st July, 2005 respectively.

13 Share capital

For the purpose of this report, the combined share capital of the Group as at 31st March, 2003, 2004 and 2005 and 31st July, 2005 represented the aggregate amount of nominal value of the share capital of Modern Beauty Saloon Limited ("MBS"), Modern Beauty Salon (HK) Limited ("MBSHK") and Modern Beauty Holdings Limited ("MB Holdings").

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
Issued and fully paid share capital as at the beginning of the year/period	11	11	18	18
Share capital issued	<u>—</u>	<u>7</u>	<u>—</u>	<u>—</u>
Issued and fully paid share capital as at the end of the year/period	<u>11</u>	<u>18</u>	<u>18</u>	<u>18</u>

- (a) The Company was incorporated on 19th August, 2005 with authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. On 8th September, 2005, Mapcal Limited, as initial subscriber, transferred the one issued and outstanding share to SCHC. On 8th September, 2005, 50 and 24 fully-paid shares of the Company were allotted and issued to SCHC and SHEC respectively.
- (b) On 20th January, 2006, the Company increased its authorised share capital from HK\$390,000 to HK\$1,000,000,000 by creating an additional 9,996,100,000 shares of HK\$0.10 each. These shares rank pari passu in all respects with the existing shares.
- (c) In preparation of the Company's listing of its shares on the Main Board of the Stock Exchange, the Company acquired the entire issued share capital of KEI in consideration of allotment and issue of 367,199,949 and 172,799,976 shares to SCHC and SHEC respectively credited as fully paid on 24th January, 2006.

II NOTES TO THE FINANCIAL INFORMATION

14 Reserves

	Capital Reserve	(Accumulated losses)/retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1st April, 2002 (note a)	30	(77,540)	(77,510)
Profit for the year	—	38,995	38,995
Effect of reorganisation (note b)	<u>7</u>	<u>—</u>	<u>7</u>
As at 1st April, 2003	37	(38,545)	(38,508)
Profit for the year	—	61,491	61,491
Effect of reorganisation (note c)	<u>(16)</u>	<u>—</u>	<u>(16)</u>
As at 1st April, 2004	21	22,946	22,967
Profit for the year	—	105,171	105,171
Effect of reorganisation (note c)	(21)	—	(21)
Dividends (Note 24)	<u>—</u>	<u>(9,400)</u>	<u>(9,400)</u>
As at 1st April, 2005	—	118,717	118,717
Profit for the period	—	34,126	34,126
Dividends (Note 24)	<u>—</u>	<u>(118,000)</u>	<u>(118,000)</u>
As at 31st July, 2005	<u>—</u>	<u>34,843</u>	<u>34,843</u>

- (a) Capital reserve of the Group as at 1st April, 2002 comprised the aggregate issued share capital of subsidiaries which were subsequently acquired by another subsidiary, Modern Beauty Management Company Limited (“MB Management”) during the Relevant Periods as described in note (c) below. The then shareholders of MB Management have sold their shares to MBHL in March 2004 and on 24th January, 2006, the Company acquired the entire issued share capital of MBHL through another subsidiary, KEI, pursuant to the Reorganisation as described in Note 1 above.
- (b) One of the subsidiaries, Beauty Expert (B.V.I.) Limited, issued 1,000 ordinary shares of HK\$7.8 per share to the then shareholder, Tsang Yue, Joyce in 2003.
- (c) Effect of reorganisation represented the aggregate amount of issued share capital of subsidiaries acquired by MB Management from the then shareholders at a consideration of HK\$16,016 and HK\$21,808 settled by cash during the years ended 31st March, 2004 and 2005 respectively.
- (d) As at 31st July, 2005, the Company was not yet incorporated and therefore the Company did not have any reserves available for distribution to shareholders of the Company.

II NOTES TO THE FINANCIAL INFORMATION

15 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%; 2004: 17.5%)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
Deferred tax assets to be recovered after more than 12 months	4,521	1,716	1,582	1,582
Deferred tax liabilities to be settled after more than 12 months	<u>—</u>	<u>(1,156)</u>	<u>(103)</u>	<u>(103)</u>

The movement on net tax assets/(liabilities) account are as follows:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
As at 1st April	3,081	4,521	560	1,479
Deferred taxation credited/(charged) to income statement account (note 22)	<u>1,440</u>	<u>(3,961)</u>	<u>919</u>	<u>—</u>
As at 31st March	<u>4,521</u>	<u>560</u>	<u>1,479</u>	<u>1,479</u>

Deferred tax assets are recognised for tax loss carry-forwards to the extent that realisation of the related tax benefits through future taxable profits is probable. Based on all available information including forecasts and planned actions, management believes that deferred tax assets for tax losses will be realised. The Group has unrecognised tax losses of HK\$1,512,563, HK\$3,181,792, HK\$1,725,146 and HK\$1,725,146 for the years ended 31st March, 2003, 2004 and 2005 and the period ended 31st July, 2005 to carry forward against future taxable income subject to the provisions of the respective tax legislation. The deferred tax benefit on these tax losses has not been recognised in the combined financial statements as the realisation is uncertain.

II NOTES TO THE FINANCIAL INFORMATION

15 Deferred taxation (continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year/period is as follows:

Deferred tax assets:

	Accelerated depreciation				Others				Total			
	As at 31st March,		As at 31st July,		As at 31st March,		As at 31st July,		As at 31st March,		As at 31st July,	
	2003	2004	2005	2005	2003	2004	2005	2005	2003	2004	2005	2005
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April	1,448	3,709	1,716	1,357	1,650	812	—	225	3,098	4,521	1,716	1,582
(Charged)/credited to income statement account	2,261	(1,993)	(359)	—	(838)	(812)	225	—	1,423	(2,805)	(134)	—
As at 31st March	<u>3,709</u>	<u>1,716</u>	<u>1,357</u>	<u>1,357</u>	<u>812</u>	<u>—</u>	<u>225</u>	<u>225</u>	<u>4,521</u>	<u>1,716</u>	<u>1,582</u>	<u>1,582</u>

Deferred tax liabilities:

	Accelerated depreciation allowance			
	As at 31st March,			As at 31st July,
	2003	2004	2005	2005
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1st April	(17)	—	(1,156)	(103)
(Charged)/credited to income statement account	<u>17</u>	<u>(1,156)</u>	<u>1,053</u>	<u>—</u>
As at 31st March	<u>—</u>	<u>(1,156)</u>	<u>(103)</u>	<u>(103)</u>

II NOTES TO THE FINANCIAL INFORMATION

16 Trade and other payables, deposits received and accrued expenses

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Trade payables	298	238	192	865
Other payables, deposits received and accrued expenses	<u>14,973</u>	<u>19,567</u>	<u>19,302</u>	<u>25,268</u>
	<u>15,271</u>	<u>19,805</u>	<u>19,494</u>	<u>26,133</u>

An ageing analysis of trade payables as at the balance sheets dates is as follows:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Within 90 days	<u>298</u>	<u>238</u>	<u>192</u>	<u>865</u>

17 Deferred revenue

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

	As at year ended 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Within 1 year	242,955	285,503	306,144	304,746
More than 1 year but within 2 years	157,352	138,939	146,016	157,972
More than 2 years but within 3 years	<u>82,247</u>	<u>95,763</u>	<u>97,772</u>	<u>99,934</u>
	<u>482,554</u>	<u>520,205</u>	<u>549,932</u>	<u>562,652</u>

II NOTES TO THE FINANCIAL INFORMATION

17 Deferred revenue (continued)

Movement of Deferred Revenue

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

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/period end.

18 Amounts due to related companies

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
All Link International Limited	—	1,674	4,376	—
Beauty Expert Product Limited	—	6	—	—
Money Chain Limited	—	2,279	8,181	—
Modern Beauty Salon (South Bridge) Pte Limited	—	7,952	—	—
Chain Tech International Limited	1	105	2,383	—
United Industries Limited	—	—	5,962	—
Andy & Ho Design and Advertising Limited	1,993	1,993	1,575	—
Senex Investments Limited	413	424	7,809	—
Modern Wish Inc.	<u>8,183</u>	<u>8,183</u>	<u>12,387</u>	<u>—</u>
	<u>10,590</u>	<u>22,616</u>	<u>42,673</u>	<u>—</u>

Amounts due to related companies, which are wholly owned by Tsang Yue, Joyce, are unsecured, interest free and repayable on demand.

II NOTES TO THE FINANCIAL INFORMATION

19 Other gains — net

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	Unaudited	
	HK\$'000	HK\$'000	HK\$'000	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other investments/financial assets at fair value through profit or loss:					
— fair value losses (realised and unrealised)	(1,371)	(484)	(71)	(258)	(71)
— fair value gains (realised and unrealised)	795	4,192	1,003	123	2,931
Interest income	1,577	2,087	6,631	2,237	3,283
Dividend income	406	491	180	115	123
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Investment income	1,407	6,286	7,743	2,217	6,266
Gross rental income	576	500	724	243	227
Other income	1,219	2,306	552	111	633
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>3,202</u>	<u>9,092</u>	<u>9,019</u>	<u>2,571</u>	<u>7,126</u>

20 Profit before taxation

The following items have been included in arriving at profit from operations:

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	Unaudited	
	HK\$'000	HK\$'000	HK\$'000	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Crediting:					
Gain on disposal of leasehold land and buildings	—	—	2,620	—	—
Gain on disposal of property, plant and equipment	—	—	—	—	45
Net exchange gains	95	106	40	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Charging:					
Auditors' remuneration					
— current year/period	619	752	850	267	300
— overprovision in previous year/period	—	—	(50)	—	—
Loss on disposal of property, plant and equipment	782	478	2,488	—	—
Provision for inventories	—	336	—	—	—
Staff costs (including director's remuneration and is disclosed in Note 21(a))	150,115	151,464	172,043	57,803	55,641
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

II NOTES TO THE FINANCIAL INFORMATION

21 Staff costs (including directors' remuneration)

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	2004	2005
	HK\$'000	HK\$'000	HK\$'000	Unaudited HK\$'000	HK\$'000
Wages and salaries	146,370	143,571	163,456	54,831	53,006
Pension costs - defined contribution plan	3,194	5,339	6,458	2,154	2,207
Other staff welfare	551	2,554	2,129	818	428
	<u>150,115</u>	<u>151,464</u>	<u>172,043</u>	<u>57,803</u>	<u>55,641</u>

(a) Directors' and senior management's remuneration

The remunerations of every Director for the year ended 31st March, 2003 are set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tsang Yue, Joyce	—	15,521	—	—	3,600	12	—	19,133
Lee Soo Ghee	—	—	—	—	—	—	—	—
Yuen Siu Ping	—	720	—	—	—	12	—	732
Hung Fan Kwan	—	—	—	—	—	—	—	—
Yip Kai Wing	—	204	—	—	—	10	—	214
	<u>—</u>	<u>16,445</u>	<u>—</u>	<u>—</u>	<u>3,600</u>	<u>34</u>	<u>—</u>	<u>20,079</u>

The remunerations of every Director for the year ended 31st March, 2004 are set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tsang Yue, Joyce	—	14,060	—	—	3,600	12	—	17,672
Lee Soo Ghee	—	—	—	—	—	—	—	—
Yuen Siu Ping	—	1,226	—	—	—	12	—	1,238
Hung Fan Kwan	—	—	—	—	—	—	—	—
Yip Kai Wing	—	212	—	—	—	10	—	222
	<u>—</u>	<u>15,498</u>	<u>—</u>	<u>—</u>	<u>3,600</u>	<u>34</u>	<u>—</u>	<u>19,132</u>

II NOTES TO THE FINANCIAL INFORMATION

21 Staff costs (including directors' remuneration) (continued)

The remunerations of every Director for the year ended 31st March, 2005 are set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tsang Yue, Joyce	—	14,299	—	—	3,600	12	—	17,911
Lee Soo Ghee	—	—	—	—	—	—	—	—
Yuen Siu Ping	—	1,532	—	—	—	12	—	1,544
Hung Fan Kwan	—	625	—	—	—	13	—	638
Yip Kai Wing	—	351	—	—	—	12	—	363
	—	16,807	—	—	3,600	49	—	20,456

The remunerations of every Director for the period ended 31st July, 2004 are set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Tsang Yue, Joyce	—	4,000	—	—	1,200	4	—	5,204
Lee Soo Ghee	—	—	—	—	—	—	—	—
Yuen Siu Ping	—	664	—	—	—	4	—	668
Hung Fan Kwan	—	189	—	—	—	5	—	194
Yip Kai Wing	—	100	—	—	—	4	—	104
	—	4,953	—	—	1,200	17	—	6,170

The remunerations of every Director for the period ended 31st July, 2005 are set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tsang Yue, Joyce	—	2,200	—	—	1,200	4	—	3,404
Lee Soo Ghee	—	1,200	—	—	—	3	—	1,203
Yuen Siu Ping	—	474	—	—	—	4	—	478
Hung Fan Kwan	—	241	—	—	—	4	—	245
Yip Kai Wing	—	120	—	—	—	4	—	124
	—	4,235	—	—	1,200	19	—	5,454

No directors waived or agreed to waive any emoluments during the Relevant Periods. No emoluments were paid to independent non-executive directors during the Relevant Periods.

II NOTES TO THE FINANCIAL INFORMATION

21 Staff costs (including directors' remuneration) (continued)

(b) Five highest paid individuals

The five individuals whose remuneration were the highest in the Group are as follows:

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	2004	2005
				Unaudited	
Directors	2	2	3	2	4
Employees	3	3	2	3	1
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

Information relating to the remuneration of the directors has been disclosed above. Details of the remuneration of the remaining highest paid, non directors individuals during the Relevant Periods are set out below:

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	2004	2005
				Unaudited	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries	4,417	3,564	1,178	601	195
Retirement benefit cost	24	23	24	12	4
	<u>4,441</u>	<u>3,587</u>	<u>1,202</u>	<u>613</u>	<u>199</u>

The number of non-director, highest paid individuals whose remuneration for each of the Relevant Periods fell within the following band is as follows:

Emolument Bands	Number of non-directors				
	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	2004	2005
				Unaudited	
HK\$nil - HK\$1,000,000	2	2	2	3	1
HK\$2,500,001 - HK\$3,000,000	—	1	—	—	—
HK\$3,000,001 - HK\$3,500,000	1	—	—	—	—
	<u>3</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>1</u>

During the Relevant Periods, no emoluments have been paid to the Directors of the Company, or the five highest individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

II NOTES TO THE FINANCIAL INFORMATION

22 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%; 2004: 17.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the combined income statements represents:

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	2004	2005
	HK\$'000	HK\$'000	HK\$'000	Unaudited HK\$'000	HK\$'000
Current income taxation:					
— Hong Kong profits tax	8,784	7,419	21,953	5,124	6,534
— (Over)/Under provision in prior years	(75)	73	538	538	11
	<u>8,709</u>	<u>7,492</u>	<u>22,491</u>	<u>5,662</u>	<u>6,545</u>
Deferred taxation (note 15)	(1,440)	3,961	(919)	—	—
	<u>7,269</u>	<u>11,453</u>	<u>21,572</u>	<u>5,662</u>	<u>6,545</u>

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong, the principal place of the Group's operations, as follows:

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	2004	2005
	HK\$'000	HK\$'000	HK\$'000	Unaudited HK\$'000	HK\$'000
Profit before tax	<u>46,264</u>	<u>72,944</u>	<u>126,743</u>	<u>36,310</u>	<u>40,671</u>
Calculated at a taxation rate of 17.5% (2003: 16%; 2004: 17.5%)	7,402	12,765	22,180	6,354	7,117
Income not subject to taxation	(1,970)	(1,809)	(1,356)	(1,407)	(635)
Expenses not deductible for taxation purposes	1,134	525	464	177	52
(Over)/under provision in prior years	(75)	73	538	538	11
Utilisation of previously unrecognised tax losses	—	(214)	(290)	—	—
Tax effect of unrecognised tax losses	778	368	36	—	—
Effect on opening deferred tax balance resulting from an increase in tax rate during the year/period	<u>—</u>	<u>(255)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Tax charge	<u>7,269</u>	<u>11,453</u>	<u>21,572</u>	<u>5,662</u>	<u>6,545</u>

II NOTES TO THE FINANCIAL INFORMATION

23 Earnings per share

The basic/diluted earnings per share will not be presented as it is not considered meaningful due to the preparation of the results for the Relevant Periods on a combined basis.

24 Dividends

No dividends have been paid or declared by the Company since its incorporation. However, during the Relevant Periods, the following companies declared dividends to their then shareholders or owners prior to the Reorganisation:

	For the year ended 31st March,			For the four months ended 31st July,	
	2003	2004	2005	2004	2005
	Unaudited				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
East Union Industries Limited	—	—	4,200	—	—
Well Faith International Enterprise Limited	—	—	5,200	—	—
Modern Beauty Saloon Limited	—	—	—	—	31,500
Modern Beauty Salon (HK) Limited	—	—	—	—	23,500
Modern Beauty Holdings Limited	—	—	—	—	63,000
	—	—	9,400	—	118,000
	—	—	9,400	—	118,000

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

25 Non cash transaction to combined cash flow statements

During the year ended 31st March, 2005 and period ended 31st July, 2005, dividend payable of HK\$9,400,000 and HK\$118,000,000 respectively were settled by offsetting balance due from a shareholder, Tsang Yue, Joyce.

II NOTES TO THE FINANCIAL INFORMATION

26 Commitments

(a) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Land and buildings				
Not later than one year	39,959	37,779	48,369	42,544
Later than one year and not later than five years	<u>16,275</u>	<u>38,070</u>	<u>38,895</u>	<u>31,853</u>
	<u>56,234</u>	<u>75,849</u>	<u>87,264</u>	<u>74,397</u>

(b) Other commitments

Other commitments at the balance sheet date are as follows:

	As at 31st March,			As at
	2003	2004	2005	31st July,
	HK\$'000	HK\$'000	HK\$'000	2005
				HK\$'000
Capital expenditure contracted for but not yet incurred in the financial statements in respect of acquisition of property, plant and equipment	—	—	730	—
Commitment for the purchase of equipment under a distribution agreement entered into before year/period end	<u>—</u>	<u>718</u>	<u>759</u>	<u>707</u>

27 Contingent liabilities

During the course of business, the Group has received complaints and claims in respect of various matters concerned with the provision of beauty services, including complaints filed with the Hong Kong Consumer Council, certain small claims filed at Hong Kong Small Claims Tribunal, and a claim filed at each of Hong Kong District Court and Hong Kong High Court in respect of breach of contract, content of advertisement and personal injuries in relation to the services provided. The directors are of the opinion that such complaints and claim have no material financial impact to the Group.

II NOTES TO THE FINANCIAL INFORMATION

28 Pledged bank deposits

As at 31st March, 2003, 31st March, 2004, 31st March, 2005 and 31st July, 2005, the Group pledged bank deposits of HK\$44,531,000, HK\$51,520,000, HK\$51,520,000 and HK\$86,520,000 respectively in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company.

29 Related party transactions

- (a) In addition to the transactions and balances with the directors and related companies as detailed elsewhere in the report, the Group had the following material transactions with related parties during the Relevant Periods, which were entered into by the Group in the ordinary course of its business.

The following transactions were carried out with related parties:

	Note	For the year ended 31st March,			For the four months ended	
		2003	2004	2005	31st July,	2005
		HK\$'000	HK\$'000	HK\$'000	Unaudited HK\$'000	HK\$'000
Rental income received from related companies:						
Chain Tech International Limited	(i)	—	40	96	32	24
All Link International Limited	(i)	—	40	97	32	24
Senex Investments Limited	(i)	—	39	94	31	23
United Industries Limited	(i)	—	40	95	32	24
		—	159	382	127	95
Rental paid to related companies:						
All Link International Limited	(ii)	3,600	3,600	3,600	1,200	1,200
United Industries Limited	(iii)	—	1,085	1,860	620	620
Senex Investments Limited	(iv)	1,800	1,800	518	518	—
Chain Tech International Limited	(v)	720	720	720	240	240
		6,120	7,205	6,698	2,578	2,060
Sales of products and equipment to a related company:						
Modern Beauty Salon (South Bridge) Pte Limited	(vi)	4,657	8,015	12,376	3,483	5,984

II NOTES TO THE FINANCIAL INFORMATION**29 Related party transactions (continued)**

Note:

- (i) The property is located at 6/F, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong which is held by Well Faith International Enterprise Limited (“WF”), a company controlled by Tsang Yue, Joyce. Tenancy Agreements (“T/A”) have been entered between WF and Chain Tech International Limited (“Chain Tech”), All Link International Limited (“All Link”), Senex Investments Limited (“Senex”), United Industries Limited (“United Industries”) in November 2003 for the use of signage space in the abovementioned property. All companies are under the control of Tsang Yue, Joyce, a director of the Company for the use of signage space in the abovementioned property.
 - (ii) The property is located at 47 Stanley Village Road, Stanley, Hong Kong, which is owned by All Link, a company under the control of Tsang Yue, Joyce.
 - (iii) The property is located at House 5, Le Palais, 8 Pak Pat Shan Road, Tai Tam, Hong Kong, which is owned by United Industries, a company under the control of Tsang Yue, Joyce.
 - (iv) The property is located at House No. 66, Palm Drive, The Redhill Peninsula, No. 18 Pak Pat Shan Road, Tai Tam, Hong Kong, which is owned by Senex, a company under the control of Tsang Yue, Joyce.
 - (v) The property is located at 1/F., 46 Carnarvon Road, Tsimshatsui, Kowloon, which is owned by Chain Tech, a company under the control of Tsang Yue, Joyce. It is the training centre of the Group.
 - (vi) The amounts represented the amounts of material/products/equipment being sold to the Group’s related companies incorporated and located in Singapore which are controlled by Tsang Yue, Joyce.
- (b) As at 31st March, 2003, 2004 and 2005, a director pledged bank deposits of HK\$40,000,000, HK\$40,000,000 and HK\$35,000,000 respectively in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company.

II NOTES TO THE FINANCIAL INFORMATION

30 Principal subsidiaries

As at the date of this report, the Company held interests in the following subsidiaries.

Name	Place of incorporation/ operations; and date	Principal activities	Issued and fully paid up share capital	Percentage of equity attributable to the Group		Name of statutory auditors
				Direct	Indirect	
1. Modern (Human Resource) Limited	Hong Kong 18th December, 2002	Provision of management services	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
2. Beauty Expert (Logistics) Limited	Hong Kong 18th December, 2002	Sales of cosmetics products and leasing of fixed assets	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
3. MWH Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
4. MAD Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
5. MKL Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
6. MFW Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
7. MIR Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
8. MQQ Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
9. MCB Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
10. MOH Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
11. MEH Limited	Hong Kong 18th December, 2002	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
12. Topluck International Holdings Limited	Hong Kong 19th October, 2001	Provision of beauty parlour services and sales of cosmetics products	1,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
13. Step Well Investment Limited	Hong Kong 2nd November, 2001	Provision of beauty parlour services and sales of cosmetics products	1,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
14. Modern Advertising (HK) Limited	Hong Kong 18th October, 2000	Provision of advertising services	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)

II NOTES TO THE FINANCIAL INFORMATION

30 Principal subsidiaries (continued)

Name	Place of incorporation/ operations; and date	Principal activities	Issued and fully paid up share capital	Percentage of equity attributable to the Group		Name of statutory auditors
				Direct	Indirect	
15. Beauty Expert (International) Limited (formerly known as Brain Hope International Limited)	Hong Kong 11th October, 1999	Provision of management services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (e)
16. MHWC Limited (formerly known as Wealth Base Holdings Limited)	Hong Kong 27th March, 2003	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (c)
17. MCP Limited (formerly known as Keen Fortune International Industrial Limited)	Hong Kong 1st September, 2003	Provision of beauty parlour services and sales of cosmetics products	1,000 ordinary shares of HK\$1	—	100%	Note (b) & (c)
18. MPA Limited (formerly known as Luck Gain Trading Limited)	Hong Kong 1st September, 2003	Provision of beauty parlour services and sales of cosmetics products	1,000 ordinary shares of HK\$1	—	100%	Note (b) & (c)
19. BE Universal Limited (formerly known as Lucky Stand Limited)	Hong Kong 3rd September, 2003	Dormant	1,000 ordinary shares of HK\$1	—	100%	Note (b) & (c)
20. Lucky Days Investments Inc.	British Virgin Islands 8th February, 2002	Provision of franchise services in relation to the provision of beautification and gymnastic services	1 ordinary share of US\$1	—	100%	Note (h)
21. Well Faith International Enterprise Limited	Hong Kong 12th July, 2002	Property investment for rental income	1,000 ordinary shares of HK\$1	—	100%	Note (c) & (g)
22. Beauty Expert (B.V.I.) Limited (formerly known as Lion Key Limited)	British Virgin Islands 3rd July, 2001	Provision of franchise and trademark services in relation to the provision of beautification and gymnastic services	1,000 ordinary shares of US\$1	—	100%	Note (h)
23. Modern Beauty Salon (International) Limited	British Virgin Islands 24th June, 2002	Provision of sub-franchising services in relation to the provision of beautification and gymnastic services	450,000 preferred shares of US\$0.1 and 50,000 ordinary shares of US\$0.1	—	100%	Note (a), (b) & (c)
24. Modern Beauty Management Company Limited	Hong Kong 19th March, 2004	Investment holding	1,000 ordinary shares of HK\$1	—	100%	Note (c)
25. Modern Beauty Saloon Limited	Hong Kong 25th April, 1991	Provision of beauty parlour services and sales of cosmetics products	10,000 ordinary shares of HK\$1	—	100%	Note (b), (c) & (d)

II NOTES TO THE FINANCIAL INFORMATION

30 Principal subsidiaries (continued)

Name	Place of incorporation/ operations; and date	Principal activities	Issued and fully paid up share capital	Percentage of equity attributable to the Group		Name of statutory auditors
				Direct	Indirect	
26. Modern Beauty Salon (HK) Limited	Hong Kong 9th November, 2001	Provision of beauty parlour services and sales of cosmetics products	2 ordinary shares of HK\$1	—	100%	Note (b), (c) & (d)
27. Modern Beauty Holdings Limited	British Virgin Islands 16th March, 2004	Investment holding	1,000 ordinary shares of US\$1	—	100%	Note (c)
28. Joy East Limited	Hong Kong 4th April, 2005	Property investment	1,000 ordinary shares of HK\$1	—	100%	Note (h)
29. Wise World Limited	Hong Kong 4th April, 2005	Property investment	1,000 ordinary shares of HK\$1	—	100%	Note (h)
30. Key Ideal Investments Limited	British Virgin Islands 20th November, 2003	Dormant	1 ordinary share of US\$1	—	100%	Note (h)
31. Best Vantage Far East Limited	Hong Kong 11th August, 2004	Dormant	1 ordinary share of HK\$1	—	100%	Note (h)
32. Euro Gem Beauty Products Limited (Formerly known as Rich Elite Investments Limited)	Hong Kong 22nd April, 2005	Dormant	1 ordinary share of HK\$1	—	100%	Note (h)
33. East Union Industries Limited	Hong Kong 18th October, 2000	Property investment for rental income	10,000 ordinary shares of HK\$1	—	100%	Note (e) & (g)
34. Koladen Enterprises Inc.	British Virgin Islands 28th July, 2005	Investment holding	100 ordinary shares of US\$1	100%	—	Note (h)

(a) These companies were audited by PricewaterhouseCoopers, Hong Kong, Certified Public Accountants, for the year ended 31st March, 2003 or for the period from the respective dates of their incorporation to 31st March, 2003.

(b) These companies were audited by PricewaterhouseCoopers, Hong Kong, Certified Public Accountants, for the year ended 31st March, 2004 or for the period from the respective dates of their incorporation to 31st March, 2004.

(c) These companies were audited by PricewaterhouseCoopers, Hong Kong, Certified Public Accountants, for the year ended 31st March, 2005 or for the period from the respective dates of their incorporation to 31st March, 2005.

(d) These companies were audited by Deloitte Touche Tohmatsu, Hong Kong, Certified Public Accountants, for the year ended 31st March, 2003 or for the period from the respective dates of their incorporation to 31st March, 2003.

(e) These companies were audited by CCIF Charles Chan, Ip & Fung CPA Limited, Certified Public Accountants, for the year ended 31st March, 2003 or for the period from the respective dates of their incorporation to 31st March, 2003.

(f) These companies were audited by Ronald H. T. Lee & Co., Certified Public Accountants, for the year ended 31st March, 2003 or for the period from the respective dates of their incorporation to 31st March, 2003.

(g) These companies were audited by Ronald H. T. Lee & Co., Certified Public Accountants, for the year ended 31st March, 2004 or for the period from the respective dates of their incorporation to 31st March, 2004.

(h) There were no statutory accounts throughout the Relevant Periods as audited accounts were not required by the relevant authorities.

III SUBSEQUENT EVENTS

The following material transactions took place subsequent to 31st July, 2005 and up to the date of this report:

- (a) The Group completed the Reorganisation in preparation for a listing of shares of the Company on the Main Board, the details of which are set out in Note 1 of Section II of this report.
- (b) The amount due from a director of approximately HK\$44,282,000 was fully settled in November 2005.
- (c) Pursuant to the Deed of Indemnity dated 26th January, 2006, Tsang Yue, Joyce, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. agreed to provide in favour of the Group, containing, among other things, indemnities in relation to taxation, claims, payments, suits, damages, settlement payments and/or any associated costs and expenses which would be incurred by the Group. The indemnity shall be under no liability for litigations and claims to the extent that full provision has been made in the audited consolidated accounts of the Group for the three years ended 31st March, 2005 and the four months ended 31st July, 2005.

IV SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 31st March, 2005. Save as disclosed in this report, no dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31st July, 2005.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong