現代美容控股有限公司

MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2007

FINANCIAL HIGHLIGHTS

- Turnover grew 23.2% to approximately HK$614.1 million.
- Profit attributable to equity holders surged 44.8% to approximately HK$177.4 million.
- Net profit margin increased 4.3% points to 28.9%.
- Basic earnings per share rose 13.5% to HK24.61 cents.
- Proposed final and special dividends per share of HK12.8 cents.

OPERATIONAL HIGHLIGHTS

- Opened 10 new service centres, service network expanded to 27 centres.
- Weighted average total gross floor area increased by 15.1% to approximately 259,000 square feet.
- Customer base grew to 179,000 with 25,000 new customers.
- First service centre in Mainland China was opened in Guangzhou, receiving encouraging response from local customers.

The Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2007 with comparative figures for the previous year as follows. The annual results have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Note	**2007** *HK$'000*	2006 *HK$'000*
Turnover	*2*	**614,064**	498,265
Other gains – net	*3*	**5,781**	6,652
Cost of inventories sold		**(18,706)**	(13,036)
Employee benefits expenses		**(230,969)**	(186,757)
Depreciation and amortisation		**(26,149)**	(22,014)
Occupancy costs		**(52,205)**	(47,154)
Other operating expenses		**(106,788)**	(106,068)
Operating profit	*4*	**185,028**	129,888
Interest income		**25,440**	13,589
Profit before income tax		**210,468**	143,477
Income tax expenses	*5*	**(33,050)**	(20,966)
Profit for the year attributable to the Company's equity holders		**177,418**	122,511
Earnings per share *(HK cents)*			
– Basic	*6*	**24.61**	21.68
– Diluted	*6*	**24.52**	21.63
Dividends	*7*	**150,352**	217,360

CONSOLIDATED BALANCE SHEET
As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**77,216**	55,774
Leasehold land prepayments		**26,661**	27,325
Financial assets at fair value through profit or loss		**–**	67,979
Trade and other receivables, deposits and prepayments	8	**17,295**	9,707
Deferred income tax assets		**2,977**	2,854
		124,149	163,639
Current assets			
Inventories		**10,618**	6,689
Trade and other receivables, deposits and prepayments	8	**47,749**	56,550
Current income tax assets		**7,121**	4,638
Pledged bank deposits		**10,707**	52,286
Cash and cash equivalents		**584,953**	565,655
		661,148	685,818
Total assets		**785,297**	849,457
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**72,340**	72,000
Share premium and reserves		**237,147**	213,272
Total equity		**309,487**	285,272
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**79**	50

	Note	2007 HK$'000	2006 HK$'000
Current liabilities			
Trade and other payables, deposits received and accrued expenses	9	**41,114**	29,535
Deferred revenue		**420,007**	526,412
Current income tax liabilities		**14,610**	8,188
		475,731	564,135
Total liabilities		**475,810**	564,185
Total equity and liabilities		**785,297**	849,457
Net current assets		**185,417**	121,683
Total assets less current liabilities		**309,566**	285,322

Notes:

1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, except that financial assets and financial liabilities (including derivative instruments) are stated at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) Amendments to published standards mandatory for the financial year ended 31 March 2007

HKAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the consolidated financial statements.

(b) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1 April 2007, but it is not expected to have any impact on the classification and valuation of the Group's financial instruments;

HK(IFRIC-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 April 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 April 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

(c) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(d) *Standards, amendments and interpretations effective for the year ended 31 March 2007 but not relevant for the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

HKAS 21	Amendment – New Investment in a Foreign Operation;
HKAS 39	Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
HKAS 39	Amendment – The Fair Value Option;
HKAS 39 and IFRS 4	Amendment – Financial Guarantee Contracts;
HKFRS 6	Exploration for and Evaluation of Mineral Resources;
HKFRS 1 Amendment	First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease;
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2 SEGMENT INFORMATION

The Group operated into two main business segments during the year:

(a) Beauty and healthcare services; and

(b) Skincare products and equipment.

Turnover consists of sales of beauty and healthcare services and sales of skincare products and equipment.

No analysis of the Group's segment information by geographical segments is presented as the Group mainly provides beauty and healthcare services in Hong Kong. The inter-segment sales were transacted at cost.

	Group	
	2007	2006
	HK$'000	*HK$'000*
Turnover:		
Beauty and healthcare services	**560,588**	427,918
Sales recognised upon expiry of prepaid beauty packages	**35,306**	50,157
Total gross sales of beauty and healthcare services	**595,894**	478,075
Total gross sales for sale of skincare products and equipment	**37,230**	30,365
	633,124	508,440
Inter-segment sales	**(19,060)**	(10,175)
Total turnover	**614,064**	498,265
Segment results:		
Beauty and healthcare services	**227,400**	184,874
Skincare products and equipment	**11,656**	4,871
	239,056	189,745
Other gains – net	**5,781**	6,652
Unallocated costs	**(59,809)**	(66,509)
Operating profit	**185,028**	129,888
Interest income	**25,440**	13,589
Profit before income tax	**210,468**	143,477
Income tax expenses	**(33,050)**	(20,966)
Profit for the year	**177,418**	122,511

	2007	2006
	HK$'000	*HK$'000*
Segment assets:		
Beauty and healthcare services	**583,752**	586,792
Skincare products and equipment	**8,141**	6,946
	591,893	593,738
Unallocated assets	**193,404**	255,719
Total assets	**785,297**	849,457
Segment liabilities:		
Beauty and healthcare services	**(457,069)**	(554,342)
Skincare products and equipment	**(4,052)**	(1,605)
	(461,121)	(555,947)
Unallocated liabilities	**(14,689)**	(8,238)
Total liabilities	**(475,810)**	(564,185)
Other information:		
Capital expenditure		
Beauty and healthcare services	**45,647**	46,298
Unallocated capital expenditure	**1,280**	2,281
	46,927	48,579
Depreciation and amortisation		
Beauty and healthcare services	**25,581**	21,458
Skincare products and equipment	**115**	115
Unallocated depreciation and amortisation	**453**	441
	26,149	22,014

3 OTHER GAINS – NET

	Group	
	2007	2006
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
– fair value losses (realised and unrealised)	**–**	(615)
– fair value gains (realised and unrealised)	**1,264**	5,477
Dividend income	**–**	255
Investment income	**1,264**	5,117
Gross rental income	**395**	490
Gain on disposal of property, plant and equipment	**2,500**	–
Other income	**1,622**	1,045
	5,781	6,652

4 OPERATING PROFIT

Operating profit is stated after charging the following:

	Group 2007 HK$'000	Group 2006 HK$'000
Auditors' remuneration		
– current year	**1,985**	1,380
– under provision in previous year	**–**	127
Cost of inventories sold	**18,706**	13,036
Employee benefits expenses	**230,969**	186,757
Depreciation and amortisation	**26,149**	22,014
Occupancy costs	**52,205**	47,154
Advertising costs	**19,044**	31,720
Building management fee	**14,181**	13,462
Bank charges	**22,080**	19,518
Other expenses	**49,498**	39,861

5 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

The amount of income tax expenses charged to the consolidated income statement represents:

	Group 2007 HK$'000	Group 2006 HK$'000
Current income tax		
– Current year	**33,434**	23,178
– Over provision in prior years	**(290)**	(887)
	33,144	22,291
Deferred income tax	**(94)**	(1,325)
	33,050	20,966

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders for the year ended 31 March 2007 of HK$177,418,000 (2006: HK$122,511,000) and the weighted average of 721,031,192 (2006: 565,150,685) shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2007 is based on the Group's net profit attributable to shareholders for the year of HK$177,418,000 (2006: HK$122,511,000) and the weighted average of 723,576,250 (2006: 566,517,087) shares. The weighted average number of shares used in the calculation comprises the 721,031,192 (2006: 565,150,685) shares in issue during the year, as used in the basic earnings per share calculation, the weighted average of 2,545,058 (2006: 1,366,402) shares assumed to have been issued at no consideration on the deemed exercise of options granted under the Company's share option scheme during the year.

7 DIVIDENDS

	Group 2007 HK$'000	2006 HK$'000
Dividends paid to the then shareholders (note a)	**–**	118,000
Proposed final dividend of HK8.0 cents per ordinary share (2006: HK13.8 cents per ordinary share) (note b)	**57,882**	99,360
Proposed special dividend of HK4.8 cents per ordinary share (note b)	**34,729**	–
2007 interim dividend of HK7.0 cents per ordinary share	**50,523**	–
2007 special dividend of HK1.0 cents per ordinary share	**7,218**	–
	150,352	217,360

Note:

(a) Dividends of HK$118,000,000 were declared and paid by the Company's subsidiaries to their then shareholders during the year ended 31 March 2006.

(b) Proposed final and special dividend in respect of 2007 of HK12.8 cents per share, amounting to total dividend of HK$92,610,560 is to be approved at the annual general meeting of the Company on 22 August 2007. These financial statements do not reflect this dividend payable.

8 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group 2007 HK$'000	2006 HK$'000
Non-current assets		
Rental and other deposits	**17,295**	9,707
Current assets		
Trade receivables	**30,270**	28,140
Rental and other deposit, prepayments and other receivables	**17,094**	28,256
Amounts due from related companies	**385**	154
	47,749	56,550
	65,044	66,257

The fair value of trade and other receivables, deposits and prepayments approximate their carrying amounts.

The Group's turnover comprises mainly cash and credit card sales. Collection banks are granted credit terms up to 45 days (2006: 60 days). An ageing analysis of trade receivables as at the balance sheets dates is as follows:

	Group 2007 HK$'000	2006 HK$'000
0 – 30 days	**24,251**	11,729
31 – 60 days	**5,847**	14,776
61 – 90 days	**172**	1,635
	30,270	28,140

The carrying amounts of the Group's trade receivables are denominated in Hong Kong dollar.

9 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade payables	**1,567**	351
Other payables, deposits received and accrued expenses	**39,547**	29,184
	41,114	29,535

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**1,567**	351

The fair value of trade and other payables, deposit received and accrued expenses approximate their carrying amounts.

The carrying amounts of the Group's trade payable are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Hong Kong dollar	**1,415**	351
Renminbi	**152**	–
	1,567	351

BUSINESS REVIEW

Launch of New Brand "Yue Spa"

Riding on the mounting demand for high quality spa and massage services, the Group launched its brand new "**Yue Spa**" deluxe spa and beauty centre this year. The first "**Yue Spa**" service centre, situated in the heart of Causeway Bay in Hong Kong with a total floor area exceeding 15,000 square feet, offers a wide range of beauty services including spa services, body massages, professional facial and body treatments. With its Thai-imperial design, "**Yue Spa**" offers large VIP rooms which are equipped with individual Jacuzzis, shower rooms, televisions, etc. to ensure the exclusivity and privacy for all customers.

This new service line has been well-received by the top-tier customers whose definition of an ultimate spa experience is tranquility and an exclusive environment. The Group believes that the strategy of having "**Yue Spa**" and the widely recognised "**be Sanctuary Spa**" to cater for specific customer needs will further drive business growth across different customer segments.

Revamp of Men Salon Line

During the year, the Group established a new brand "**Hey Man**" to strengthen the image of men salon services and appointed Mr. Timmy Hung (洪天明先生) and Mr. Samuel Pang (彭敬慈先生) as spokespersons of this business line. Apart from revamping the existing service centres to set up exclusive area for serving male customers, the Group also opened the first "**Hey Man**" service centre to provide beauty and healthcare services for men exclusively. We also offer men's skincare products under our brandname "**be homme**" to strengthen our business line for men.

Among the Group's 26 service centres in Hong Kong, we have eight centres providing men salon services. As at 31 March 2007, the Group has registered 7,400 male customers, representing a satisfactory growth of 25.4% as compared to 5,900 male customers as at 31 March 2006.

Continuous Expansion of Hong Kong Service Network

The Group experienced a considerable growth in the Hong Kong operation during the year. We achieved our target to open nine new service centres, expanding our network to 26 service centres with weighted average total gross floor area of approximately 257,000 square feet as at 31 March 2007. The Group's network coverage has been extended to the newly developed and highly-populated residential districts including Tseung Kwan O, Aberdeen, Happy Valley, Sha Tin, Tai Wai and North Point.

Our reach to the new districts has not only added convenience for our existing customers who reside nearby, but also broadened our customer base and deepened market penetration. Our customer base in Hong Kong further increased to 178,000 customers as at 31 March 2007, representing an increase of 15.6% as compared to 154,000 customers as at 31 March 2006.

Business Development in Mainland China

Guangzhou

The Group established its first own service centre in Guangzhou which commenced operation in mid-January 2007. The Guangzhou "**be Sanctuary Spa**" service centre, located at May Flower Tower of Yuexiu District, occupies a gross floor area of approximately 7,700 square feet and is well-equipped with advanced equipments and facilities. By adopting the business model in Hong Kong, the Guangzhou centre provides comprehensive beauty and healthcare services including facials, slimming treatments as well as spa and massages services.

Offering a comfortable environment under the Group's renowned brand name, the Guangzhou centre has received extensive recognition from local customers and registered more than 800 customers as at 31 March 2007. Since the commencement of business, there was excellent monthly growth in the sales of prepaid beauty packages. Starting from the second month operation, the cash generated from the prepaid package sales well exceeded monthly operating expenses, thus achieving a net cash inflow. This encouraging performance in the first few months of operations is a promising start for the Group to expand its network in Mainland China.

Shanghai

The Group saw good progress in expanding its network to Shanghai. Situated at Westgate Tower on Nanjing Road West of Jingan District with a gross floor area of approximately 6,600 square feet, our Shanghai service centre recently commenced operation in late June 2007, providing comprehensive beauty and healthcare services.

Beijing

The Group has obtained the business license for the Beijing service centre which is expected to be in operation in July 2007. The Beijing centre is located at Oriental Kenzo Office Building of Dongcheng District, occupying a gross floor area of approximately 5,800 square feet.

	As at 31 March	
	2007	2006
Hong Kong and Mainland China Operation Highlights		
Number of service centres	**27**	17
Weighted average total gross floor area *(sq. ft.)*	**259,000**	225,000
Number of customers	**179,000**	154,000
Number of staff		
Frontline beauty staff	**988**	926
Back office staff	**277**	247
	1,265	1,173

Market Recognition

The Group has continually committed resources to enhance the service standard of its frontline beauty staff with a view to boost customer satisfaction. To complement the existing channels of booking services via telephone, fax, e-mail and in person, the Group launched an online real-time booking system on the Modern Beauty website, providing a new channel for customers to pick and book their preferred services. To continuously enhance our service quality, feedback is collected from our customers after they have used our services. We have also provided a platform on the Modern Beauty website for customers to give their opinions on our services. Customers' comments are handled promptly by our customer services department.

Our efforts have been recognized as the Group was accredited with the "**Trusted Brands 2007 Gold Award – Beauty Centre Category**" by Reader's Digest, which was nominated by consumers in a survey conducted by Nielsen Media Research through mailed questionnaires and telephone interviews. Further, our brands "**Modern Beauty Salon**" and "**be Sanctuary Spa**" were awarded the "**PRC Consumer's Most Favourable Hong Kong Brand**" – Gold Awards respectively in Beauty and Slimming Services as well as Healthcare Categories in 2007. These honours represent our customers' extensive recognition and confidence in our efforts to provide enhanced service quality and brand image.

Responsibilities to Community

Apart from business development, Modern Beauty has also devoted considerable effort to contributing to the community. During the year, the Group participated in various charitable and fund-raising activities in Hong Kong and Mainland China. We collaborated with Joyful (Mental Health) Foundation to organize a series of charitable and fund-raising activities including the large-scale yoga exercise led by our spokesperson Ms. Choi Siu Fan Ada in November 2006 and made a donation of HK$600,000 to the organization. We also arranged several seminars to have a medical practitioner delivered talks on mental health topic. Besides, we donated HK$200,000 to CSDCU Education Fund in August 2006 for the construction of a school in Mainland China.

FINANCIAL REVIEW

For the financial year ended 31 March 2007, the Group achieved outstanding financial performance with a considerable growth in turnover, profit attributable to shareholders and net profit margin.

Turnover Growth

The Group recorded a total turnover of HK$614.1 million for the year ended 31 March 2007, representing a considerable growth of 23.2% as compared to HK$498.3 million in 2006. The increase in turnover of approximately HK$115.8 million was attributable to the expansion of the Group's service network with the weighted average total gross floor area having increased by 15.1% to approximately 259,000 square feet as at 31 March 2007 compared to 225,000 square feet in 2006. A total of 10 new service centres, including nine in Hong Kong and one in Mainland China, were added to the Group's network which covered more locations in the newly developed and highly-populated residential districts and hence facilitated more customers' consumption of the Group's services. The growth in turnover was also contributed by the surge in customers' spending on beauty, facial, spa and massage services in Hong Kong during the year.

With the expansion of the Group's network coverage and continuous enhancement in service quality, as well as raising consumption power, the sales of beauty and healthcare services for the year achieved encouraging growth by 31.0% to approximately HK$560.6 million as compared to HK$427.9 million in 2006. The sales recognized upon expiry of prepaid beauty packages further reduced to HK$35.3 million, representing approximately 5.7% of the Group's total turnover.

Financial Performance in Mainland China

The Group's first service centre in Guangzhou commenced business in mid-January 2007 also engaged in similar business activities in Hong Kong. The centre has achieved an encouraging financial performance and recorded excellent monthly growth in the sales of prepaid beauty packages. For the two-month period ended 31 March 2007, the centre achieved net cash inflow position and the total cash received from sales of prepaid beauty packages well exceeded the operating expenses.

With the written off of start up expenses, mainly rental cost and other company set-up cost, business in Mainland China incurred a minor loss of RMB1.1 million for a less than three-month operation in Guangzhou. Nevertheless, with the continuous growth in the number of customers and consumption of prepaid beauty packages, a better performance of the Guangzhou service centre is expected.

Segment Performance

The increase in turnover of approximately HK$115.8 million or 23.2% for the year was mainly attributable to the boost in the sales of beauty and facial services by HK$62.1 million as well as spa and massage services by HK$49.9 million, representing a considerable growth of 33.9% and 45.5% respectively as compared to those in 2006. With the addition of beauty service centres to the Group's network during the year, customers' consumption of beauty and facial treatments grew significantly, its sales representing 40.0% of its total turnover. Capturing the strong demand for spa and massage services together with the launch of deluxe spa services, the spa and massage service line continued to grow rapidly to HK$159.4 million, representing 26.0% of the Group's total turnover as compared to 22.0% in 2006.

Albeit the competitive environment in the slimming industry, the Group maintained a steady growth in the slimming segment with the sales having increased by 7.9% to HK$162.0 million, representing 26.3% of the total turnover. During the year, we placed less effort in promoting our fitness services and hence the sales in this segment decreased by HK$6.0 million or 17.1% to HK$29.0 million. Such decrease was also due to the keen competition in the industry coming from large-scale fitness centres and private club houses in residential estates.

With the cessation of selling skincare products and equipment to a related company in Singapore after listing in February 2006, the Group's sales of skincare products and equipment for the year decreased by HK$2.0 million or 10.0% to HK$18.2 million. Nevertheless, excluding the related party sales of HK$10.2 million in 2006, the Group in fact achieved a good growth of 82.6% in the sales of skincare products and equipment in Hong Kong in 2007 as compared to HK$10.0 million in 2006, which resulted from the expansion of its retail sales network to various renowned personal care chain stores.

Interest Income

The increase in bank interest income by 87.2% to HK$25.4 million was attributable to the surge in average bank balance during the year, which represented an annual interest yield of approximately 4.2%.

Analysis of Major Operating Expenses

There was no material change in respect of the Group's cost structure for the year 2007 as compared to that in 2006. The Group's major expenses included employee benefits expenses, occupancy costs, bank charges as well as advertising and promotion expenses.

To support the continuous expansion of the Group's business in Hong Kong and Mainland China, more staff was employed during the year with the total headcount increasing from 1,173 as at 31 March 2006 to 1,265 as at 31 March 2007. Employee benefits expenses increased by 23.7% to HK$231.0 million as a result of the increase in staff number as well as the payment of more discretional bonus to the frontline staff by recognizing their good performance in achieving a considerable growth in both the turnover from customers' consumption and sales of new prepaid beauty packages. In addition, share options were also granted to eligible employees during the year as an incentive to boost their loyalty and their sense of belonging to the Group. During the year, total employee benefits expenses maintained at healthy level of 37.6% of Group's total turnover.

The Group has been exercising an effective control on occupancy costs while expanding its service network, mainly through relocation of service centres and cautious search for new locations. The weighted average total gross floor area of the Group's service centres increased by 15.1% from 225,000 square feet as at 31 March 2006 to 259,000 square feet as at 31 March 2007 with the occupancy costs rose by 10.7% to HK$52.2 million, representing 8.5% of its total turnover for the year, as compared to HK$47.2 million or 9.5% of its total turnover in 2006. The bank charges increased by 13.1% to HK$22.1 million as in line with the increase in the sales of new prepaid beauty packages during the year.

By taking advantage of the increase in media exposure resulting from the Company's listing in the Hong Kong Stock Exchange and implementing more cost-effective advertising and promotion campaigns, the Group's advertising and promotion expenses reduced by 40.0% to HK$19.0 million, representing 3.1% of the Group's total turnover, as compared to HK$31.7 million or 6.4% of its total turnover in 2006.

Growth in Net Profit and Margin

The considerable increase in turnover together with an effective control on operating expenses attributed to the growth in the Group's net profit and margin. The profit for the year attributable to shareholders reached HK$177.4 million, posting a significant increase of 44.8% as compared to HK$122.5 million in 2006. The net profit margin also improved from 24.6% in 2006 to 28.9% in 2007.

Liquidity and Financial Position

The total equity of the Company as at 31 March 2007 was HK$309.5 million (2006: HK$285.3 million). The Group generally finances its operation with internal generated cash flows from operations. The Group continued to maintain a strong financial position with cash and cash equivalents of approximately HK$585.0 million as at 31 March 2007 (2006: HK$565.7 million) with no external bank borrowing. During the year, the majority of the Group's cash was held under fixed and saving deposits in renowned banks as in line with the Group's prudent treasury policy. As at 31 March 2007, the Group had net current assets of approximately HK$185.4 million (2006: HK$121.7 million).

Capital Expenditure

The total capital expenditure incurred by the Group during the year ended 31 March 2007 amounted to HK$46.9 million, which was mainly used in purchase of leasehold improvements, equipment and machinery in connection with the expansion of its service network in Hong Kong and Mainland China.

Deferred Revenue

The movement of deferred revenue for the year ended 31 March 2007 is summarized as follows:

	2007 *HK$'000*	2006 *HK$'000*	*Change*
Beginning of the year	**526,412**	549,932	-4.3%
Receipts during the year	**489,489**	454,555	+7.7%
Sales upon provision of beauty and healthcare services	**(560,588)**	(427,918)	+31.0%
Sales upon expiring prepaid beauty packages	**(35,306)**	(50,157)	-29.6%
End of the year	**420,007**	526,412	-20.2%

With the expansion of the Group's network coverage and greater effort in promotion, the sales of new prepaid beauty packages for the year increased by 7.7% to HK$489.5 million as compared to HK$454.6 million in 2006. The continuous enhancement of the Group's service quality boosted customers' consumption. Together with the diversification of our business lines to the male market and absorption of new customers from different segments in the new locations, customers' consumption has been increasing at a greater pace than the increase in sales of new prepaid packages, resulting in the deferred revenue as at 31 March 2007 to have decreased to HK$420.0 million as compared to the balance of HK$526.4 million as at 31 March 2006.

Contingent Liabilities and Capital Commitment

The Board considered no material contingent liabilities as at 31 March 2007. The Group had capital commitment of approximately HK$6.0 million as at 31 March 2007 (2006: HK$3.0 million) in respect of the acquisition of property, plant and equipment.

Charges on Assets

As at 31 March 2007, the Group had pledged bank deposits of HK$10.7 million (2006: HK$52.3 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Exchange Risk Exposure

The Group's sales and purchases were mainly denominated in Hong Kong Dollars. The financial assets and a certain level of the Group's cash and cash equivalents are denominated in United States Dollars. In view of the relative stability of the exchange rate between Hong Kong Dollars and United States Dollars, the Group does not foresee significant risk in exchange rate fluctuations and no financial instruments have been used for hedging purposes. However, the Group will closely monitor the exposure and, when considered appropriate, will take the necessary actions to ensure that such exposure is properly hedged.

Significant Acquisition

There was no significant acquisition by the Group during the year.

Treasury Policies

The Group adopts a prudent approach in the treasury policy. The Group's surplus funds are held under fixed and saving deposits in renowned banks. The financial assets of the Group amounted to HK$68.0 million as at 31 March 2006 were disposed of during the year under review with a net gain of HK$1.3 million. All the cash proceeds are then placed as bank deposits.

Human Resources

As at 31 March 2007, the Group had a total work force of 1,265 staff (31 March 2006: 1,173 staff), including 988 frontline beauty staff who located at the Group's 27 service centres and 277 back office staff who were based in the head office. The total employee benefits expenses including directors' emoluments for the year under review amounted to HK$231.0 million as compared to HK$186.8 million in 2006.

The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of the performance and experience of the individual. The Group has been constantly reviewing staff remuneration incentive to ensure that it is competitive within the industry. For the purpose of motivating and rewarding our staff, discretionary bonus and share options are granted to eligible employees based on individual and Group performance. The Group has adopted a Pre-IPO share option scheme and a share option scheme on 20 January 2006. During the year ended 31 March 2007, 15,640,000 share options were granted to certain directors, senior management and employees of the Group.

The Group also places great emphasis on staff training and development, having professional training programs continuously provided to its frontline beauty staff. To further enhance the professional knowledge of our staff, the Group opened a new training centre in Hong Kong during the year to offer more training spaces.

Proceeds from Initial Public Offering

The net proceeds from the Company's initial public offering in February 2006 were approximately HK$161.6 million, after deduction of related listing expenses. During the year ended 31 March 2007, the usage of proceeds were in accordance with the future plans and prospects set out in the Company's prospectus dated 27 January 2006 and within the limit of the net proceed.

PROSPECTS

Riding on the mounting demand for quality beauty and healthcare services in Hong Kong and Mainland China, we are confident that Modern Beauty will continue to capture the market growth and prevail over our competitors. We will further strengthen our leading position in Hong Kong by expanding our services network and diversifying the services and products we offer. On the other hand, we will expedite the execution of our business expansion plan to Mainland China to seize the huge growth potential in the beauty service market.

Continuous Expansion of Service Network in Hong Kong

Our strategic plan to expand the network coverage towards the newly developed and highly populated residential areas has broadened the Group's client base and has also boosted customers' prepayments and consumption of services. We will continue to identify new locations to expand our service network. For the financial year 2007/08, we plan to open six service centres in Hong Kong to offer an additional total floor area of 30,000 square feet. Recently, a service centre in Ma On Shan was newly opened in May 2007 and was well received by the residents. We also plan to open beauty centres in Kwun Tong, Sheung Wan and Tsuen Wan to attract new customers from these districts.

Diversification of Service Line

Spa services have become a trendy and healthy lifestyle for city people to relax. Modern Beauty endeavors to fortify the spa service market through our multi-brand segmentation marketing strategy. The launch of "**be Sanctuary Spa**" and "**Yue Spa**" are some of our strategies at targeting different customers segments. Furthermore, we will place greater efforts to drive more businesses to use our spa concept and by this deepen our market penetration.

Yoga is another popular fitness exercise pursued by people from all walks of life. To strengthen the Group's fitness service line, we will launch a new brand "**Soo Yoga**" to actively promote various types of yoga services offered. Besides, we will add more choices to our existing dancing courses such as Latin Dance, Indian Dance, Belly Jam, Ballet, Jazz Dance, etc.

Launch of "be Beauty Shop"

Through applying the Group's "**be**" beauty and skincare products in providing beauty and healthcare services, the Group's products have been recognized by our customers. In order to further enhance the brand awareness in the market, apart from extending the product retail network from our service centres to various renowned personal care chain stores, we are opening our retail outlets in Hong Kong under the brandname "**be Beauty Shop**" for marketing and selling the Group's "**be**" products. The first **be Beauty Shop** commenced business in June 2007 which is located in Kwai Chung. Another four outlets, situated in Mongkok, Kwun Tong, Sheung Wan and Fanling, are currently under renovation and will be in operation in the coming months.

Establishing beachheads in Mainland China

Modern Beauty targets to expand its service network in Mainland China by establishing 20 service centres in two years. Following the opening of our first service centre in Guangzhou during the year, we plan to open seven more service centres in the major cities in the coming year, leading to a total of eight service centres in Mainland China by the end of the financial year 2007/08. With experience in setting up our own service centre, we expect that we could expedite the progress in executing our expansion plan in this year. Our service centre in Shanghai commenced business recently in late June 2007 and the Beijing centres will also be in operation in around July 2007. In addition, the Group has leased two other sites in Haizhu District of Guangzhou for operating beauty service centres. Applications for the respective licenses for the branches are underway. We are also searching for suitable locations in Beijing, Shanghai and Shenzhen to expand our network coverage.

Modern Beauty is committed to becoming one of the leading and premier beauty and healthcare services providers in China and even the region. Leveraging on our competitive strengths, we are confident of establishing a strong foothold in both first and second-tier cities in Mainland China and achieving a nationwide coverage in the long run.

Sustaining Service Enhancement

We will proactively enhance our customer services by constantly upgrading our service quality and operational systems with a view to provide added value to our customers. We will not hesitate in continuing on our path of further growth and delivering services and products that will fulfill and even exceed customers' expectations. Modern Beauty would continue with its network expansion plan and provide the best quality service to our customers. We endeavor to become the most prestigious beauty services expert in Hong Kong and Mainland China.

Dividend Per Share

In view of our strong financial position, the Board recommended a final dividend of HK8.0 cents and a special final dividend of HK4.8 cents per share to be payable to the shareholders of the Company. Together with the interim and special dividends of an aggregate of HK8.0 cents paid during the year, the total dividend for the year ended 31 March 2007 will be HK20.8 cents per share, representing an increase of 50.7% as compared to the dividend payment of HK13.8 cents per share for the financial year ended 31 March 2006. This translates into a 84.5% dividend payout ratio of the current year profit.

Subject to the approval of the shareholders in the forthcoming annual general meeting of the Company on 22 August 2007, the Company plans to pay the total dividend of HK12.8 cents per share on 31 August 2007 to the shareholders whose names appear on the register of members of the Company on 22 August 2007.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "Annual General Meeting") for the year ended 31 March 2007 will be held on 22 August 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 March 2007, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 August 2007 to Wednesday, 22 August 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final and special final dividends and the entitlement to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's registrar, Tricor Investor Services Limited at Level 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 17 August 2007.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to establishing and maintaining high standards of corporate governance.

The Board is in the opinion that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practice (the "Code") under Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 March 2007, except for the following deviations:

Code Provision A.2.1 of the Code stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Ms. Tsang Yue, Joyce is currently the Chairperson and Chief Executive Officer of the Company.

After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairperson of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management.

As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have confirmed that they have fully complied with the relevant standard set out in the Model Code.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 20 January 2006 with written terms of reference in compliance with the Code to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee comprises three independent non-executive directors of the Company. The annual results of the Group for the year ended 31 March 2007 has been reviewed by the Audit Committee, prior to their approval by the Board.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal control of the Group which covers all material controls, including financial, operational and compliance controls and risk management functions.

The purpose of the Group's internal control system is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems so that the Group's objectives can be achieved.

The Board, through the Audit Committee, has conducted review on the effectiveness of these systems covering the financial, operational, procedural compliance and risk management functions and considered such systems effective and adequate to safeguard the interest of the shareholders and the Group.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website of the Company at www.modernbeautysalon.com under "Investor Relations – Statutory Announcements". The Annual Report and the Notice of Annual General Meeting will be despatched to the shareholders on or about 24 July 2007 and will be available at the Stock Exchange's and the Company's websites at the same time.

By order of the Board
Modern Beauty Salon Holdings Limited
Tsang Yue, Joyce
Chairperson

Hong Kong, 16 July 2007

As at the date of this announcement, the Board of Directors of the Company consists of five executive Directors, Ms. Tsang Yue, Joyce, Mr. Lee Soo Ghee, Ms. Yuen Siu Ping, Mr. Hung Fan Kwan, Mr. Yip Kai Wing and three independent non-executive Directors, Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen.