MODERN BEAUTY SALON HOLDINGS LIMITED
現代美容控股有限公司
(HKSE Stock Code 香港聯交所上市編號：919)

Annual Report 2006/07 年報

MODERN BEAUTY SALON

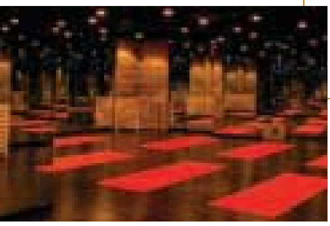
MISSION

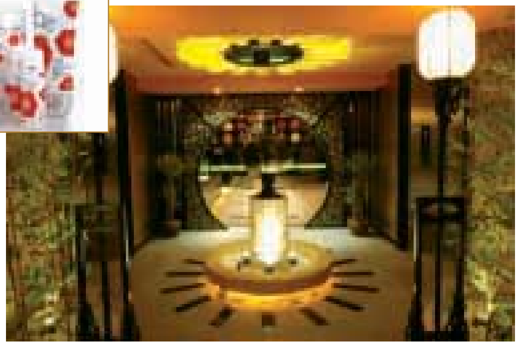
At Modern Beauty, we strive to deliver beauty and healthcare services to the highest standards at all times, strengthen our presence in Hong Kong and further extend our reach to Mainland China to enhance corporate value for our shareholders.

Our Shareholders: We aim to optimise every opportunity to expedite our business development in the China beauty service market with a view to maximize return and create long-term value to our shareholders.

Our Customers: We strive to offer comprehensive beauty and healthcare services of the highest quality at all times to provide ample choices and deliver the best value to our customers.

Our People: We place great emphasis on team work and continuously offer staff training and development program so as to provide a prosperous future for our people.










Contents

SPA

Be Charming & Impressive

Corporate Profile

Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (the "Group" or "Modern Beauty") is a leading beauty salon group in Hong Kong offering a comprehensive range of beauty and healthcare services to mid– and high-income customer groups who pursue quality living. The Group offers one-stop services ranging from beauty, facial and slimming treatments to spa and massage services, as well as fitness courses under different brandnames. The Group also engages in the retail sales of beauty and skincare products under own brandnames through its network of service centres and other renowned personal care chain stores.

To capture the enormous business opportunities arising from increasing demand for high quality beauty and healthcare services in Mainland China, Modern Beauty has established service centres in first tier cities including Guangzhou, Shanghai and Beijing, which marks another milestone. Modern Beauty currently operates an extensive network of 27 service centres in Hong Kong and three service centres in Mainland China with a weighted average total floor area exceeding 300,000 square feet. Leveraging on its effective management, first-grade service quality as well as proprietary information technology systems, Modern Beauty is well positioned to capitalize on the robust growth potential of the beauty service market in China.

No. of Service Centres	Hong Kong	Mainland China
By Location		
Hong Kong:		
Central, Admiralty & Wanchai	4	–
Causeway Bay	4	–
Quarry Bay	1	–
Happy Valley	1	–
Aberdeen	1	–
North Point	1	–
Tsimshatsui	4	–
Mongkok	3	–
Tsuen Wan	1	–
Tuen Mun & Yuen Long	2	–
Shatin & Tai Wai	3	–
Tseung Kwan O	1	–
Ma On Shan	1	–
Mainland China:		
Guangzhou	–	1
Shanghai	–	1
Beijing	–	1
Total	27	3
By Business Line		
Services:		
Modern Beauty Salon	24	3
Hey Man	8	3
Kin Yue/Kin Yik	1	–
be Sanctuary Spa	17	3
Yue Spa	1	–
Moment of Serenity	2	–
Slim Express	24	3
Modern Fitness	6	–
Products distributed at:		
Service centres	26	–
Personal care chain stores	13	–
Total	122	12

Brandnames of services and products:

Beauty & Facial

Spa & Massage

Fitness

Skincare Products

Slimming

Corporate Information

BOARD OF DIRECTORS
Ms. Tsang Yue, Joyce (Chairperson)
Mr. Lee Soo Ghee (Vice Chairperson)
Ms. Yuen Siu Ping
Mr. Hung Fan Kwan
Mr. Yip Kai Wing
Mr. Wong See Hong
(Independent Non-executive Director)
Mr. Yu How Yuen
(Independent Non-executive Director)
Mr. Cheng Kai Tai, Allen
(Independent Non-executive Director)

AUTHORISED REPRESENTATIVES
Mr. Hung Fan Kwan
Mr. Hui Hon Wa

COMPANY SECRETARY
Mr. Hui Hon Wa, LL.B.

QUALIFIED ACCOUNTANT
Mr. Hung Fan Kwan, FCPA, FCCA

MEMBERS OF AUDIT COMMITTEE
Mr. Yu How Yuen (Chairperson)
Mr. Wong See Hong
Mr. Cheng Kai Tai, Allen

MEMBERS OF REMUNERATION COMMITTEE
Ms. Tsang Yue, Joyce (Chairperson)
Mr. Yu How Yuen
Mr. Wong See Hong
Mr. Cheng Kai Tai, Allen

MEMBERS OF NOMINATION COMMITTEE
Ms. Tsang Yue, Joyce (Chairperson)
Mr. Yu How Yuen
Mr. Wong See Hong
Mr. Cheng Kai Tai, Allen

REGISTERED OFFICE
M&C Corporate Services Limited
PO Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
6th Floor
Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay
Kowloon
Hong Kong

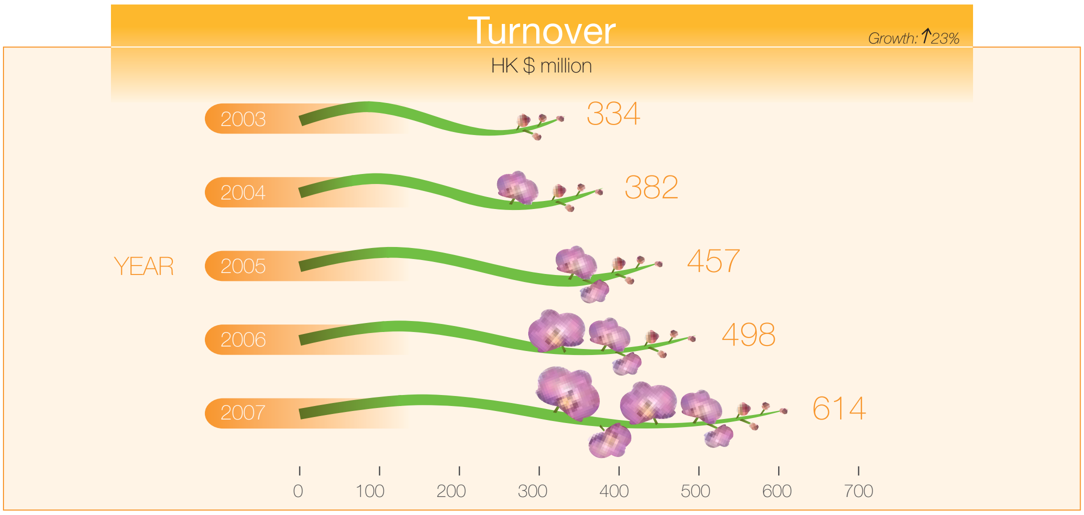
AUDITORS
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

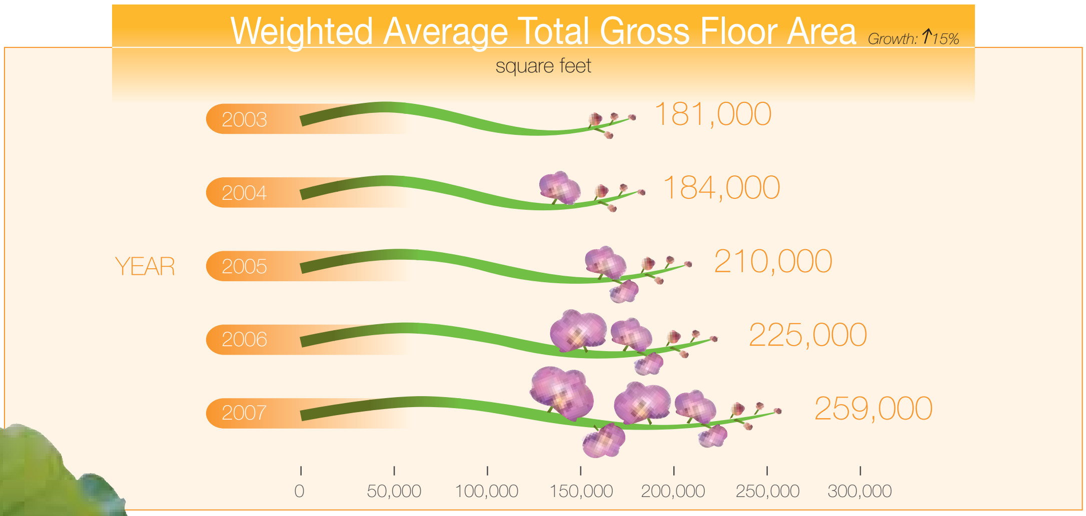
SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

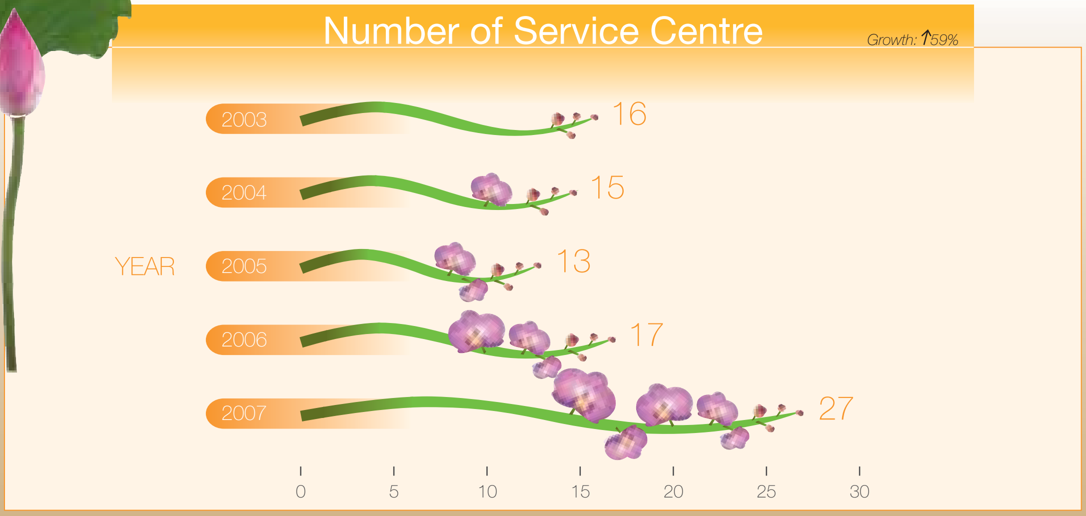
PRINCIPAL BANKERS
The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

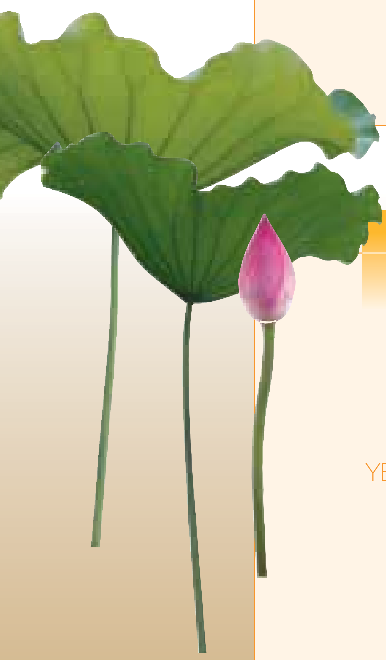
American Express Bank
One Pacific Place
88 Queensway
Hong Kong

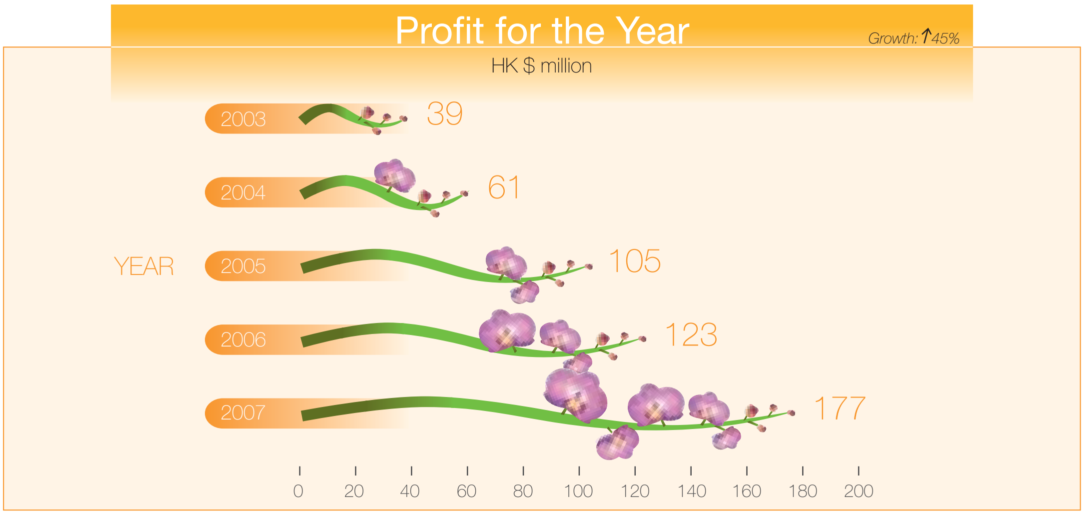

Financial and Operation Highlights

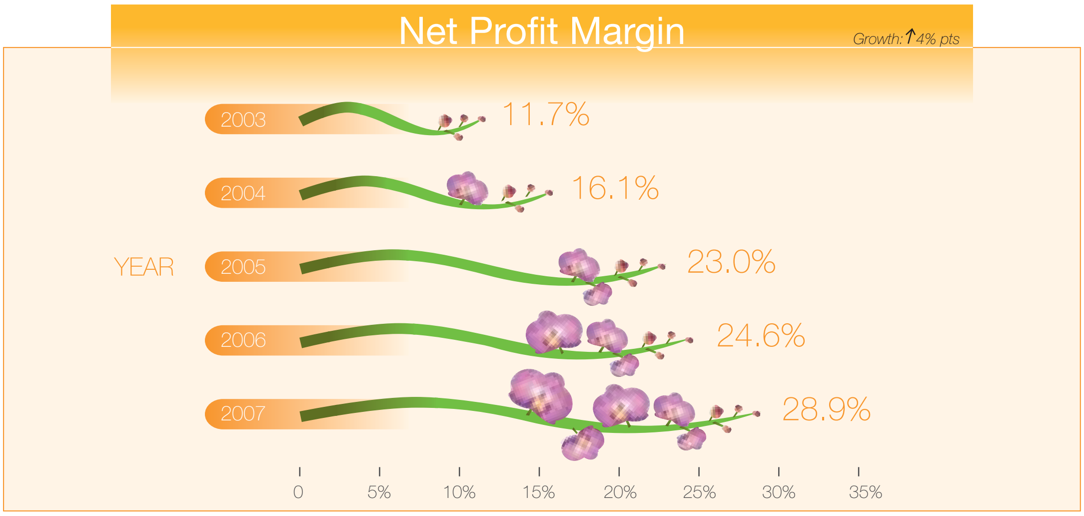


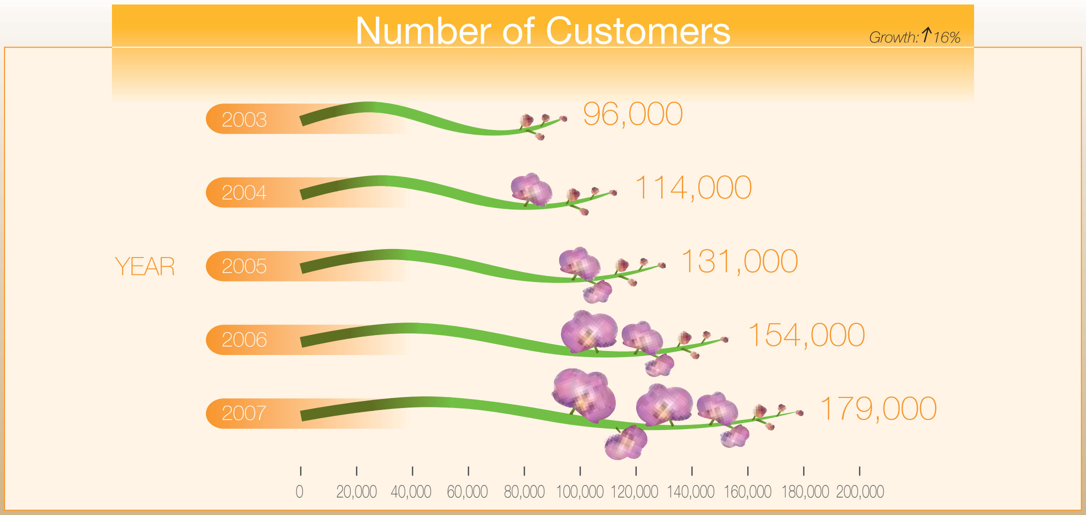







Profit for the Year
Growth: ↑45%
HK $ million
YEAR
2003 39
2004 61
2005 105
2006 123
2007 177
0 20 40 60 80 100 120 140 160 180 200


Net Profit Margin
Growth: ↑4% pts
YEAR
2003 11.7%
2004 16.1%
2005 23.0%
2006 24.6%
2007 28.9%
0 5% 10% 15% 20% 25% 30% 35%


Number of Customers
Growth: ↑16%
YEAR
2003 96,000
2004 114,000
2005 131,000
2006 154,000
2007 179,000
0 20,000 40,000 60,000 80,000 100,000 120,000 140,000 160,000 180,000 200,000

SLIM
MING

Be Confident & Refreshing

Key Events and Awards

We expanded our service network to the newly developed and highly-populated residential districts in Hong Kong, including the launch of new service centres at Tseung Kwan O, Sha Tin, Tai Wai, Aberdeen, Happy Valley and North Point

We opened a new training centre in November 2006 offering continuous professional training programs to both our frontline staff and the public

We launched an online real-time booking system on the Modern Beauty website in June 2006 to facilitate booking services for customers

In January 2007 was the grand opening of "**Yue Spa**" deluxe service centre in Causeway Bay with a total gross floor area of 15,000 square feet

Modern Beauty's first beauty and spa service centre in Mainland China was opened in Guangzhou in January 2007

The grand opening of "**Hey Man**", Modern Beauty's men salon service centre in Tsimshatsui took place in April 2007

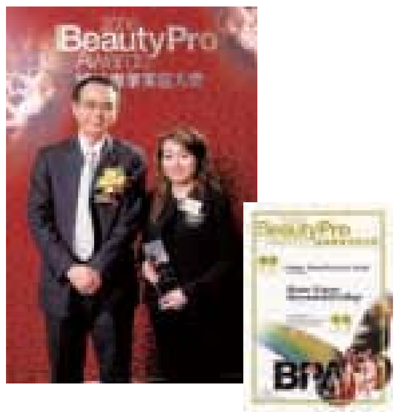
Key Events and Awards

Modern Beauty organized a series of charitable and fund-raising activities including the large-scale yoga exercise led by Ms. Choi Siu Fan Ada, our spokesperson, in November 2006

Donation of HK$200,000 was made to CSDCU Education Fund in August 2006 for the construction of a school in Mainland China

Modern Beauty collaborated with Joyful (Mental Health) Foundation to organize some talks on mental health topic

Modern Beauty was highly commended for "**Best Investor Relations for an IPO in the Hong Kong Market**" in 2006 by the prestigious IR Magazine in December 2006



The Beauty Expert International College was awarded the "**Beauty Talent Discovery Award**" in the 2006 Sisters BeautyPro Awards

Accredited Reader's Digest "**Trusted Brand 2007 Gold Award – Beauty Centre Category**" in April 2007

Our brands "**Modern Beauty Salon**" and "**be Sanctuary Spa**" were awarded the "**PRC Consumer's Most Favourable Hong Kong Brand**" – Gold Awards in the beauty and slimming services as well as healthcare categories in April 2007

GYM & YOGA

Be Healthy & Energetic

Chairperson's Statement

Tsang Yue Joyce
Chairperson &
Chief Executive Officer

"Modern Beauty delivered another year of encouraging results in 2006/07 which is testimony to our customers' trust and satisfaction in our services in Hong Kong. Focusing on extending our reach towards the region, we will deliver our best effort and look forward to a promising and rewarding future for the Group."

On behalf of the Board of Directors (the "Board" or the "Directors"), I am pleased to report the annual results of Modern Beauty Salon Holdings Limited and its subsidiaries for the financial year ended 31 March 2007.

With the increase in recognition of our brand names and transparency of our business activities after our listing on the Hong Kong Stock Exchange in February 2006, the Group's business has been developing at a faster pace. 2006/07 was a fruitful year during which the Group achieved outstanding performance in expanding our service network in Hong Kong and creating new brands to strengthen our core business. In Mainland China, we are making good progress to execute the strategic plan to extend our service network to the first-tier cities by replicating the business model in Hong Kong. Following the opening of our first own service centre in Guangzhou in January 2007 which has been well-received by local customers, the service centre in Shanghai also commenced business in late June while our Beijing centre will be in operation around July 2007.

Results

Driven by strong organic growth through the dedication and efforts of our management and staff, the Group achieved remarkable growth in turnover and net profit for the financial year ended 31 March 2007. Turnover and net profit attributable to shareholders achieved an impressive growth of 23.2% and 44.8% respectively.

Strengthening of Hong Kong Business

Expanding the Group's service network to the newly-developed and populated residential districts is one of our strategies to strengthen our business presence in Hong Kong. During the year 2006/07, nine service centres were opened in Hong Kong during the year, bringing the Group's total number of service centres to 26 as at 31 March 2007 with a weighted average total gross floor area of approximately 257,000 square feet. The extension of our service network not only provided additional choices of location for our existing customers to enjoy the services, but also brought in new customers to the Group.

Chairperson's Statement

With more people pursuing spa and massage services of superior quality, we launched a brand new "**Yue Spa**" deluxe service centre during the year, targeting top-tier customers whose expectations of an ultimate spa experience can be met only by providing a tranquil and exclusive environment. To capture the growing demand for men's beauty services and strengthen our service line for male customers, we introduced a new brand "**Hey Man**" to promote our men salon services along with our existing "**be homme**" skincare products exclusively for men.

Promising Start in First Entrance to Mainland China

During the year, the Group marked a new milestone in diversifying its business in Mainland China. We have established our first own service centre in Guangzhou which commenced business in mid-January 2007. By adopting the business model in Hong Kong, the Group's Guangzhou centre has received favourable response from local customers and we recorded satisfactory performance during the first three months of operation. Currently, we have registered approximately 2,200 new customers and we are pleased to note the continuous growth in customer base and consumption of services.

Outlook and Prospects

Looking ahead, we will continue our commitment to strengthen our business presence in Hong Kong through expanding our service network and exploring new services and product lines to meet the changing needs of our customers. To execute our network expansion and multi-brand strategy, we will continue to place emphasis to improve product portfolio and introduce superior services in order to attract more customers in Hong Kong.

The demand for quality beauty and healthcare services in Mainland China is ever-increasing; the beauty market has been growing rapidly at an annual rate of more than 15%. However, the beauty service market in China remains highly fragmented with numerous salons, spas and clubs emerging in different cities on the Mainland. Modern Beauty, leveraging on its strong brand recognition, expertise in operating extensive beauty service network and experienced management team, is poised to seize the opportunity to establish a large-scale service network in Mainland China, replicating our successful business model in Hong Kong. With the promising start of our Guangzhou service centre which has been well-received by local customers, we are confident in establishing our beachheads in other major cities including Beijing, Shanghai and Shenzhen. We are committed to set up 20 spa and beauty centres in major cities on the Mainland over the next two years.

Appreciation

The continuous effort and diligent work by our management and staff contributed to the Group's outstanding performance in last year. I would like to express my sincere gratitude to our management and staff for their commitment. I would also like to thank our customers and shareholders for their continuous support and trust in us. We strive to do our best effort to maximize returns and create a long-term value for our shareholders.

Tsang Yue Joyce
Chairperson & Chief Executive Officer

Hong Kong, 16 July 2007

SKIN CARE

Be Beautiful & Attractive

Management Discussion and Analysis

BUSINESS REVIEW

Launch of New Brand "Yue Spa"

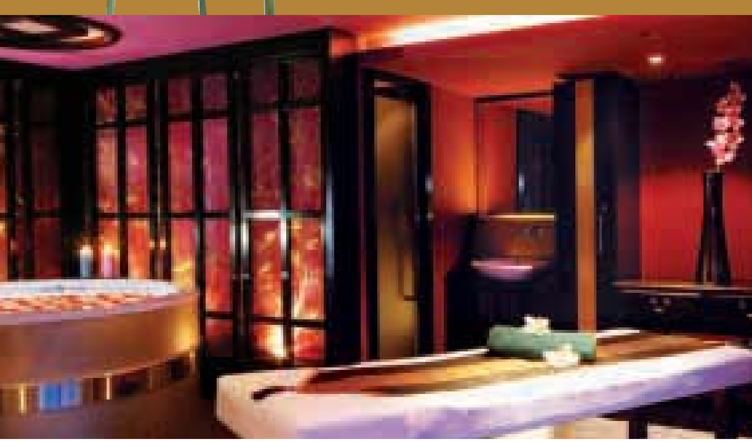
Riding on the mounting demand for high quality spa and massage services, the Group launched its brand new "**Yue Spa**" deluxe spa and beauty centre this year. The first "**Yue Spa**" service centre, situated in the heart of Causeway Bay in Hong Kong with a total floor area exceeding 15,000 square feet, 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 a 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 the 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.

Hong Kong and Mainland China Operation Highlights	As at 31 March 2007	2006
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	**1,265**	1,173
Frontline beauty staff	**988**	926
Back office staff	**277**	247

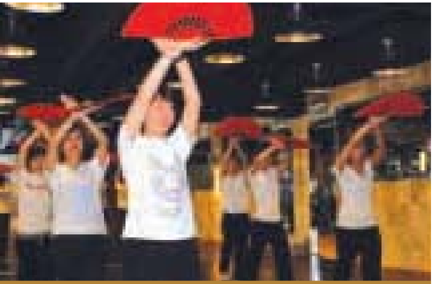
Market Recognition

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 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.



Management Discussion and Analysis

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.

The financial results for the year ended 31 March 2007 are analysed as follows:

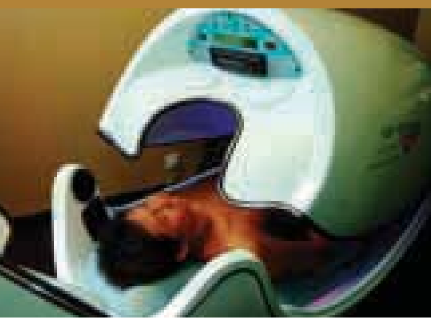
	First Half	Second Half		Full Year		
	2007	2007	Change	2007	2006	Change
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*	
Turnover	291,696	322,368	+10.5%	614,064	498,265	+23.2%
Interest income and other gains	16,331	14,890	-8.8%	31,221	20,241	+54.2%
Cost of inventories sold	(10,761)	(7,945)	-26.2%	(18,706)	(13,036)	+43.5%
Staff costs	(112,942)	(118,027)	+4.5%	(230,969)	(186,757)	+23.7%
Occupancy costs	(22,657)	(29,548)	+30.4%	(52,205)	(47,154)	+10.7%
Depreciation and amortization	(11,900)	(14,249)	+19.7%	(26,149)	(22,014)	+18.8%
Other operating expenses	(50,542)	(56,246)	+11.3%	(106,788)	(106,068)	+0.7%
Income tax expenses	(15,302)	(17,748)	+16.0%	(33,050)	(20,966)	+57.6%
Profits for the year attributable to the Company's equity holders	83,923	93,495	+11.4%	177,418	122,511	+44.8%
Dividend per share (HK cents)	8.00	12.80	+60.0%	20.80	13.80	+50.7%
Basic earnings per share (HK cents)	11.66	13.36	+14.6%	24.61	21.68	+13.5%
Net profit margin	28.8%	29.0%	+0.2% points	28.9%	24.6%	+4.3% points

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.

	2007		2006		
Turnover	*HK$'000*	*% to turnover*	*HK$'000*	*% to turnover*	*Change*
Sales of beauty and healthcare services	560,588	91.3%	427,918	85.8%	+31.0%
Sales recognized upon expiry of prepaid beauty packages	35,306	5.7%	50,157	10.1%	-29.6%
Sales of skincare products and equipment	18,170	3.0%	20,190	4.1%	-10.0%
Total	614,064	100.0%	498,265	100.0%	

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.



Management Discussion and Analysis

Financial Performance in Mainland China

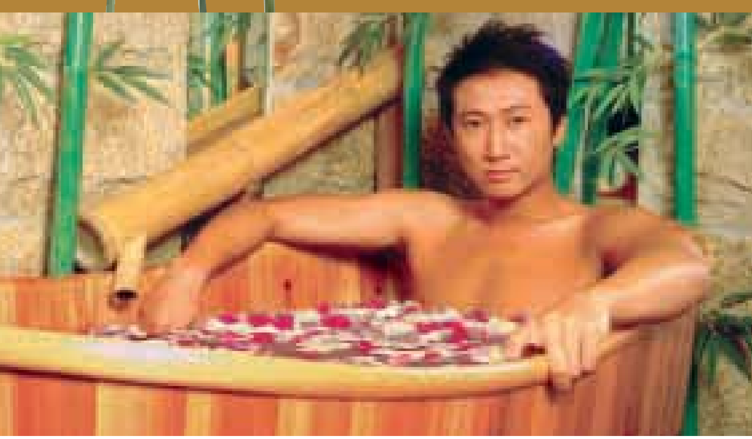
The Group's first service centre in Guangzhou commenced business in mid-January 2007 also engaged in similar business activities as in Hong Kong. The centre has achieved an encouraging financial performance and recorded excellent monthly growth in the sales of prepaid beauty packages. For the two-month 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 performance of our major service lines and product sales during the year 2007 is summarized as follows:

	2007		2006		
		% to		*% to*	
Sales Mix	*HK$'000*	*turnover*	*HK$'000*	*turnover*	*Change*
Beauty and facial	**245,539**	**40.0%**	183,437	36.8%	+33.9%
Spa and massage	**159,351**	**26.0%**	109,497	22.0%	+45.5%
Slimming	**161,978**	**26.3%**	150,146	30.1%	+7.9%
Fitness	**29,026**	**4.7%**	34,995	7.0%	-17.1%
Sales of skincare products and equipment					
– to related party	**–**	**–**	10,238	2.1%	-100.0%
– to third parties	**18,170**	**3.0%**	9,952	2.0%	+82.6%
Total turnover	**614,064**	**100.0%**	498,265	100.0%	+23.2%

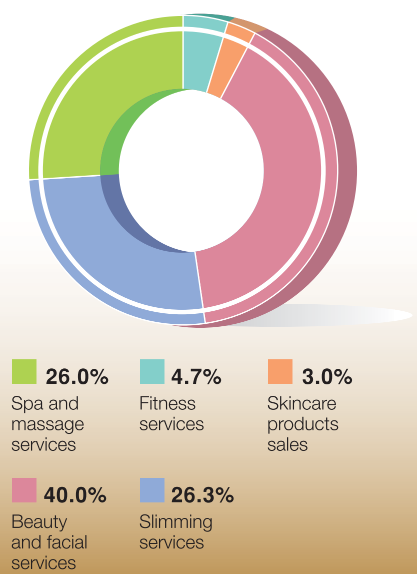


The increase in turnover of approximately HK$115.8 million or 23.2% for the year was mainly attributable to the boost in the sales of beauty and facial services by HK$62.1 million as well as spa and massage services by HK$49.9 million, representing a considerable growth of 33.9% and 45.5% respectively 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.

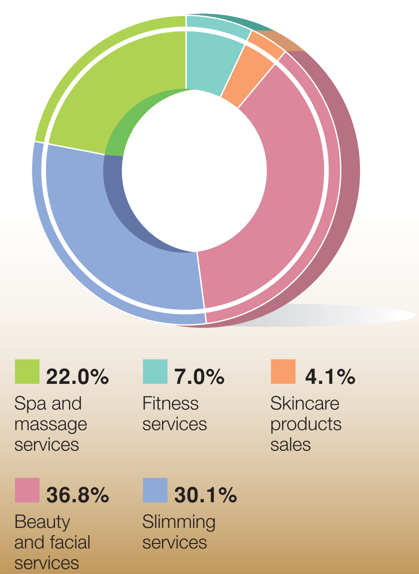
Albeit the competitive environment in the slimming industry, the Group maintained a steady growth in the slimming segment with the sales having increased by 7.9% to HK$162.0 million, representing 26.3% of the total turnover. During the year, we placed less effort in promoting our fitness services and 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.

Sales Mix for 2007



Sales Mix for 2006



Management Discussion and Analysis

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 major operating expenses included the following expenses:

	2007		2006		
		% to		*% to*	
Major Expenses	*HK$'000*	*turnover*	*HK$'000*	*turnover*	*Change*
Staff costs	230,969	37.6%	186,757	37.5%	+23.7%
Occupancy costs	52,205	8.5%	47,154	9.5%	+10.7%
Depreciation & amortization	26,149	4.3%	22,014	4.4%	+18.8%
Income tax expenses	33,050	5.4%	20,966	4.2%	+57.6%
Other operating expenses, including	106,788	17.4%	106,068	21.3%	+0.7%
– Bank charges	22,080	3.6%	19,518	3.9%	+13.1%
– Advertising and promotion	19,044	3.1%	31,720	6.4%	-40.0%
– Utilities	9,912	1.6%	10,237	2.1%	-3.2%
– Building management fee	14,181	2.3%	13,462	2.7%	+5.3%
– Others	41,571	6.8%	31,131	6.2%	+33.5%

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, the total employee benefits expenses maintained at a healthy level of 37.6% of the 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.

Earnings Per Share

Basic earnings per share rose by 13.5% to HK24.61 cents as compared to HK21.68 cents for 2006, reflecting the growth in core business and profit for the year attributable to shareholders. During the year, a certain amount of staff share options had been exercised, making the total issued shares increase to 723,395,000 shares as compared to 720,000,000 shares as at 31 March 2006.



Management Discussion and Analysis

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 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 2005/06. 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.

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 the 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 from sales of new prepaid beauty packages	**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.

Management Discussion and Analysis

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 targeting at 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 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.



Investor Relations and Financial Calendar

The Group has placed great effort in enhancing corporate transparency and maintaining continued communications with both investment community and media since our public listing in February 2006. To ensure that the investment community has an understanding of the Group's business strategies and operations, we have maintained communications with investors and the public regularly and timely. Our efforts have gained market recognition and the Group is highly commended for the "**Best Investor Relations for an IPO in the Hong Kong market**" in 2006 by the prestigious IR Magazine, a globally recognised investor relations magazine.

Communication with Investment Community

Through adopting a proactive approach to investor relations, the Group has revamped its corporate image. During the year 2006/07, the Company's senior management regularly disseminated up-to-date financial, strategic and operational information to our shareholders, financial analysts, stockbrokers, regulatory bodies and the media through meetings, conference calls and emails to deliver the Group's corporate strategies, business development and future outlook. Apart from attending investor relations activities and organizing site visits to our service centres in Hong Kong, we have also arranged various roadshows to meet institutional investors in Mainland China, Taiwan, Singapore, London, Edinburgh and Geneva.

Access to Corporate Information

Upon going public, we have revamped the Company's website www.modernbeautysalon.com to incorporate the most updated corporate information and operational progress to enhance corporate transparency. Information including webcasts of results announcements, annual and interim reports, statutory announcements and press releases in English and Chinese are timely uploaded to our website. We have also opened various channels to communicate with the investment community and answer their questions through one-on-one meetings, luncheon presentations, telephone conferences, media conferences and email dialogues.



Dividend Policy

Subject to the financial performance of the Company, we expect to distribute not less than 60% of current year distributable profit as dividends to our shareholders in each financial year as an appreciation for their continuous support.

Dividend Per Share

2006 Final Dividend	HK13.8 cents
2007 Interim and Special Dividends	HK8.0 cents
2007 Final and Special Dividends	HK12.8 cents

Financial Calendar 2007

Announcement of 2007 interim results	13 December 2006
Announcement of 2007 final results	16 July 2007
Last day to register for 2007 final and special dividends	17 August 2007
Closure of Register of Members	20 to 22 August 2007 (both dates inclusive)
2007 Annual General Meeting	22 August 2007
Payment of 2007 final and special dividends	31 August 2007
Financial year end	31 March

Share Information

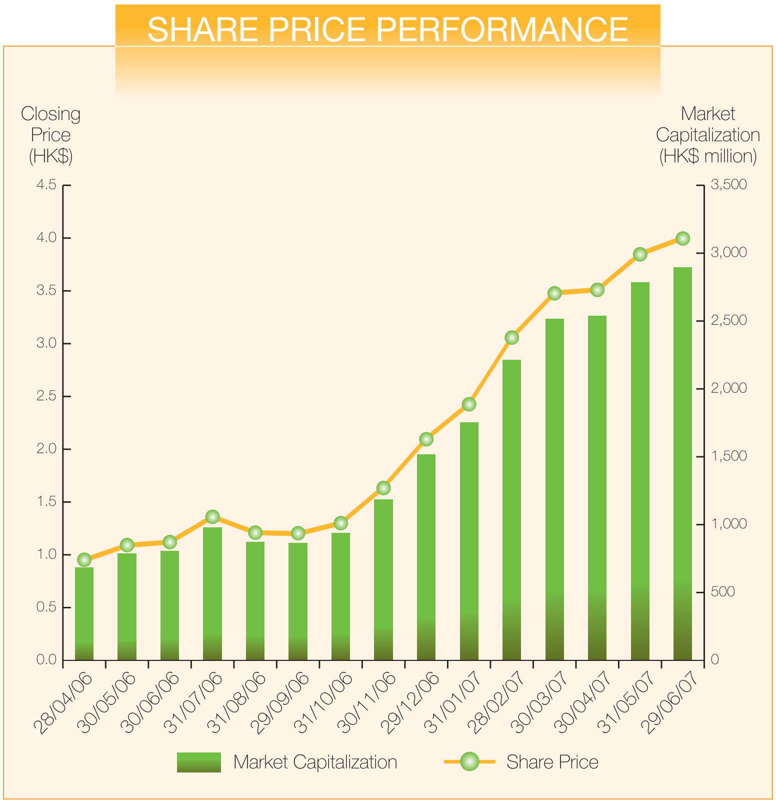
Modern Beauty Salon Holdings Limited has been listed on The Stock Exchange of Hong Kong Limited since 9 February 2006.

Issued ordinary shares as at 31 March 2007: 723,395,000 shares
Board lot: 4,000 shares
Nominal value: HK$0.1 per share
Market Capitalization as at 31 March 2007: HK$2,517 million (based on the closing price as at 30 March 2007, being the last trading date of the year, of HK$3.48)

Stock Codes

The Stock Exchange of Hong Kong: 919
Reuters: 0919.HK
Bloomberg: 919 HK

Investor Relations and Financial Calendar



Annual Report 2007

Our annual report is available in both English and Chinese. Shareholders can obtain copies by writing to the Company's Share Registrars at:

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong
Tel: (852) 2980 1333
Fax: (852) 2810 8185

Our annual/interim reports are also available online at our corporate website at www.modernbeautysalon.com.

Investor Relations

For enquiries from institutional investors and securities analysts, please contact:

Ms. Priscilla Ip
Investor Relations Manager
Modern Beauty Salon Holdings Limited
6th Floor, Sino Industrial Plaza
9 Kai Cheung Road, Kowloon Bay
Kowloon, Hong Kong
Email: ir@modernbeautysalon.com
Tel: (852) 2302 6116
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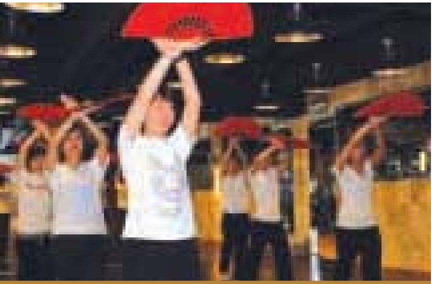
Website

www.modernbeautysalon.com



Board of Directors and Senior Management

Executive Directors

Ms. Tsang Yue, Joyce

Aged 46, is the founder, the Chairperson and the Chief Executive Officer of the Group. Ms. Tsang is responsible for the Group's overall management, strategic planning and development, as well as formulation of the Group's policies and business strategy. Starting the business from a small store dated back 20 years ago, Ms. Tsang is a veteran in the beauty and healthcare industry who has profound industry understanding and distinctive knowhow to originate and capitalize on the trends and changes seen in the market. Her wealth of knowledge of the business and corporate management has enabled her to spearhead business growth at the Group in a dynamic manner. Ms. Tsang has made significant contribution to the local community in leading the Group to participate in charitable and fund-raising activities in Hong Kong. Ms. Tsang is the spouse of Mr. Lee Soo Ghee, the Vice Chairperson of the Group.

Mr. Lee Soo Ghee

Aged 32, is the Vice Chairperson and an executive director of the Group. Mr. Lee is responsible for overseeing various back office operations and is the chief designer taking charge of projects relating to interior design and renovation of the Group service centres, as well as engineering the corporate image for all products and services. Mr. Lee holds a diploma in Electronics, Computer & Communication Engineering from Singapore Polytechnic, having extraordinary talent in the sphere of design. Additionally, Mr. Lee also participates in office management as well as business planning and development of the Group, being the key figure to bring in new concepts to optimize opportunities for business growth. Mr. Lee joined the Group in July 2001. He is the spouse of Ms. Tsang, the Chairperson and Chief Executive Officer.

Ms. Yuen Siu Ping

Aged 32, is the Chief Operating Officer and an executive director of the Group. Ms. Yuen is responsible for managing overall sales and marketing strategies, overseeing day-to-day operation of service centres, as well as developing and conducting in-house training for staff of the Group. Knowing the frontline operation and management inside out, Ms. Yuen possesses over 12 years' solid experience in beauty and skincare services industries and is a role model in putting into practice the belief of delivering the best services to customers. Ms. Yuen joined the Group in May 1993.

Mr. Hung Fan Kwan

Aged 43, is the Chief Financial Officer and an executive director of the Group. Mr. Hung is responsible for all the financial and accounting matters of the Group. Mr. Hung graduated from the Hong Kong Polytechnic University in 1987 with a Professional Diploma in Accountancy and is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has about four years' experience in the audit field gained from Coopers and Lybrand (currently known as PricewaterhouseCoopers) and another 13 years of experience in finance and business operation acquired from a number of private companies and listed groups in Hong Kong. Mr. Hung joined the Group in February 2004.

Mr. Yip Kai Wing

Aged 33, is the Chief Technology Officer and an executive director of the Group. Mr. Yip is responsible for all the computer and information system matters of the Group. Mr. Yip brings with him about seven years of experience in the system integration, information system, network operation and telecommunications industries. He graduated from the Chinese University of Hong Kong in 1997 with a Bachelor Degree in Social Science and was awarded a Microsoft Certified Professional Systems Engineer, as well as CheckPoint Certified Administrator and Turbolinux Engineer in 2002. Mr. Yip joined the Group in March 2002.

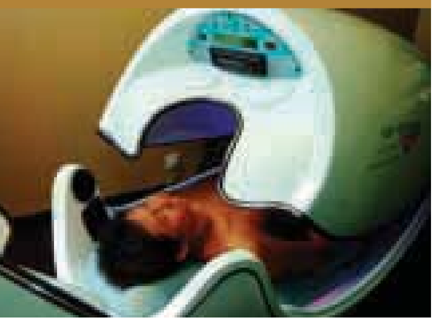
Independent Non-executive Directors

Mr. Wong See Hong

Aged 54, was appointed as an independent non-executive director in February 2006. Mr. Wong graduated from the Hong Kong University of Science and Technology in Hong Kong in November 1998 with a Master Degree of Science in Investment Management and obtained from the University of Singapore a Bachelor Degree in Business Administration in 1977. Mr. Wong is the Managing Director and Country Executive of ABN AMRO Bank, Singapore. He is also the Vice Chairman of the Singapore Foreign Exchange Market Committee, a Council Member of the Association of Banks in Singapore and Vice Chairman of Financial Industry Competency Standards Committee, as well as a member of the Market Surveillance and Compliance Panel of Energy Market Company in Singapore.

Mr. Yu How Yuen

Aged 51, was appointed as an independent non-executive director in February 2006. Mr. Yu is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, as well as an associate of the Institute of Chartered Accountants in England and Wales. He is a part-time senior lecturer of the Hong Kong Shue Yan University and a sole proprietor of Yu How Yuen & Co., Certified Public Accountants (Practising).



Board of Directors and Senior Management

Mr. Cheng Kai Tai, Allen

Aged 43, was appointed as an independent non-executive director in February 2006. Mr. Cheng graduated from Jinan University in the People's Republic of China with a Master Degree of Management in January 2004. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants, an associate of the Institute of Chartered Accountants in England and Wales, and a fellow of the Association of Chartered Certified Accountants. Mr. Cheng has practiced as a Certified Public Accountant in Hong Kong for over 10 years. Mr. Cheng is an independent non-executive director of Lo's Enviro-Pro Holdings Limited, the shares of which are listed on the Stock Exchange of Hong Kong.

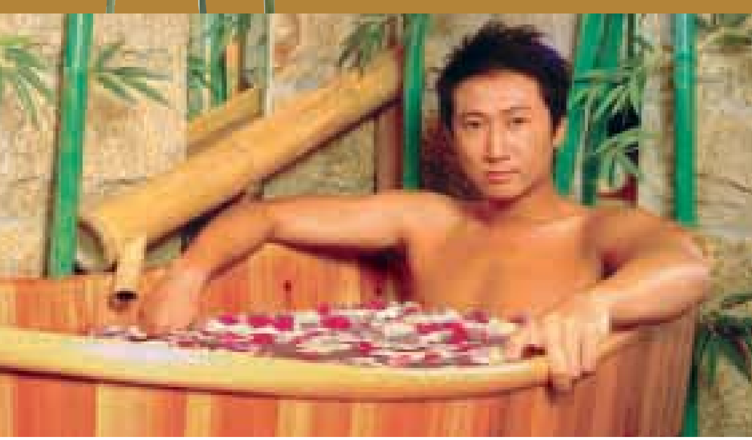
Senior Management

Mr. Hui Hon Wa

Aged 42, is the Legal Counsel and Company Secretary of the Group. Mr. Hui is responsible for providing legal advice and support to the Group's business, commercial and litigation activities, as well as overseeing the company secretarial matters. Admitted as a solicitor of the High Court of Hong Kong in September 1994, Mr. Hui graduated from the University of Hong Kong with a Postgraduate Certificate in Laws in 1992 and the City University of Hong Kong with a Bachelor Degree in Laws in 1991. Mr. Hui joined the Group in March 2005.

Ms. Ip Lai Fong

Aged 35, is the Operation Manager of Customer Service of the Group. She is responsible for the day-to-day operation of the Customer Services Department. Ms. Ip obtained an Advanced Certificate Programme on Professional Customer Service from Hong Kong Management Association in 2005. She has seven years of guest services experience in Kimberley Hotel, Hilton Hotel and Marriott Harbour View Hotel – Hong Kong (previously known as New World Harbour View Hotel) in Hong Kong. Ms. Ip joined the Group in May 1999.



Ms. Ip Priscilla

Aged 32, is the Investor Relations Manager of the Group. Ms. Ip is responsible for building and maintaining effective communication with investors and execution of the Group's investor relations programs. She is also responsible for the Group's financial management and overseeing the Group's tax planning and compliance matters. Ms. Ip graduated from The Hong Kong Polytechnic University with a Bachelor Degree of Arts in Accountancy in 1997 and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants as well as a fellow of the Association of Chartered Certified Accountants. She previously worked for Arthur Andersen (currently known as PricewaterhouseCoopers) for seven years specializing in tax compliance, tax planning and business consultation work. Ms. Ip joined the Group in April 2004.

Mr. Chan Chit Ming, Joeie

Aged 34, is the Finance Manager – Treasury Management of the Group. Mr. Chan oversees the daily treasury and accounting operations of the Group. He graduated from University of Humberside (now known as University of Lincoln) with a Bachelor degree of Arts (Accountancy and Finance) in 1994 and is a member of the Association of Chartered Certified Accountants as well as a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has seven years of audit experience in Hong Kong. Mr. Chan joined the Group in March 2001.

Ms. Yeung See Man

Aged 33, is the Finance Manager – Financial Reporting of the Group. She is responsible for overseeing the accounting and financial reporting of the Group. Ms. Yeung graduated from The Hong Kong Polytechnic University with a Bachelor Degree of Arts in Accountancy in 1995 and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants as well as a fellow of the Association of Chartered Certified Accountants. Ms. Yeung previously worked for Kwan Wong Tan & Fong (currently known as Deloitte Touche Tohmatsu) for seven years specializing in assurance and advisory services. She joined the Group in March 2004.

MEN'S GROOMING



Be Chic & Stylish

Corporate Governance Report

The Board of Directors (the "Board") of the Company is committed to establishing and maintaining high standards of corporate governance. The Company has applied the principles of all the applicable code provisions of the Code on Corporate Governance Practices ("the Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices.

This report sets out information in respect of the compliance by the Company with the Code during the year ended 31 March 2007.

Corporate Governance Practice

The Board is in the opinion that the Company has complied with the Code for the year ended 31 March 2007, except for the following deviations:

Code Provision A.2.1. 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.

Board of Directors

The Board currently consists of five executive Directors and three Independent Non-executive Directors. Two of the Independent Non-executive Directors have the appropriate professional and accounting qualifications required by Rule 3.10(2) of the Listing Rules.

The Board is responsible for the leadership and control of the Group (comprising the Company and its subsidiaries) and oversees the Group's businesses, strategic decisions and performance. Its principal functions are to consider and approve the strategies, financial objectives, annual budget and investment proposals of the Group.

The management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with other executive Directors and the management team of each business division, is responsible for managing the business of the Group, including implementation of the strategies and decisions approved by the Board and assuming full responsibility to the Board for operations of the Group.

The Board conducts meeting on a regular basis and also as and when required. The Company Secretary assists the Chairperson in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. The Company Secretary and the Qualified Accountant shall attend all Board meetings to provide information on corporate governance, compliance, accounting and financial matters when necessary.

During the year ended 31 March 2007 (the "Reporting Period"), save for executive Board meetings held between executive Directors during the normal course of business of the Company, the Board has held six full board meetings.

The members of the Board for the year ended 31 March 2007 and the attendance of each member for the aforesaid meetings are as follows:

	Number of attendance
Executive Directors	
Ms. Tsang Yue, Joyce	6/6
Mr. Lee Soo Ghee	3/6
Ms. Yuen Siu Ping	4/6
Mr. Hung Fan Kwan	6/6
Mr. Yip Kai Wing	5/6
Independent Non-executive Directors	
Mr. Wong See Hong	4/6
Mr. Yu How Yuen	5/6
Mr. Cheng Kai Tai, Allen	6/6

The biographies of the Directors are set out on pages 40 to 42 of this annual report.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee members for comments before being approved by the Board and committees at the next immediate meeting. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Company has received annual confirmations of independence from Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen and considers them to be independent of the Group with reference to the factors as set out in Rule 3.13 of the Listing Rules.

The members of the Board have no financial, business, family or other material/relevant relationship with each other except that Ms. Tsang Yue, Joyce, the Chairperson of the Company, is the wife of Mr. Lee Soo Ghee, the Vice Chairperson of the Company.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company.

All Directors (including Independent Non-executive Directors) are subject to retirement at annual general meeting of the Company by rotation at least once every three years in accordance with the Company's articles of association. All retiring Directors shall be eligible for retirement. All the Independent Non-executive Directors have been appointed for a term of three years commencing from 9 February 2006.

Chairperson and Chief Executive Officer

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.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") 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 required standard set out in the Model Code.

Remuneration Committee

The Company established the Remuneration Committee on 20 January 2006 with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The Remuneration Committee comprises the Chairperson of the Group, Ms. Tsang Yue, Joyce and three Independent Non-executive Directors, Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen. Ms. Tsang Yue, Joyce is the Chairperson of the Remuneration Committee.

The Remuneration Committee shall meet at least once a year. The Remuneration Committee has held four meetings during the year ended 31 March 2007, which was attended by all members.

Nomination Committee

The Company established the Nomination Committee on 20 January 2006 with written terms of reference in compliance with the Code. The primary duty of the Nomination Committee is to make written recommendations to the Board on appointment of Directors and management of Board succession. The Nomination Committee comprises the Chairperson of the Group, Ms. Tsang Yue, Joyce and three Independent Non-executive Directors, Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen. Ms. Tsang Yue, Joyce is the Chairperson of the Nomination committee.

The Nomination Committee shall meet at least once a year. The Nomination Committee has held one meeting during the year ended 31 March 2007, which was attended by all members.

Auditors' Remuneration

During the year ended 31 March 2007, the remuneration paid to the Company's auditors, PricewaterhouseCoopers, is set out as follows:

	Fee paid/payable *HK$'000*
Services rendered	
Annual audit of accounts for the year ended 31 March 2007	1,985

Audit Committee

The Company has established the Audit Committee on 20 January 2006 with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee has three members comprising the Company's three Independent Non-executive Directors, namely Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen. Mr. Yu How Yuen is the Chairman of the Audit Committee.

The Audit Committee shall meet at least twice a year. The Audit Committee has held six meetings during the year ended 31 March 2007 and the attendance of each member for the aforesaid meetings are as follows:

	Number of attendance
Independent Non-executive Directors	
Mr. Wong See Hong	5/6
Mr. Yu How Yuen	6/6
Mr. Cheng Kai Tai, Allen	6/6

All members of the Audit Committee possess in-depth experience in their own profession. The Chairperson of the Audit Committee, Mr. Yu How Yuen and another member, Mr. Cheng Kai Tai, Allen, possesses appropriate professional and accounting qualifications which meets the requirements of Rule 3.10(2) of the Listing Rules.

Full minutes of Audit Committee are kept by the secretary of the Audit Committee. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Audit Committee for their comment and records respectively, in both cases, within a reasonable time after the meeting.

During the year ended 31 March 2007, the Audit Committee held meeting with the Company's external auditors, PricewaterhouseCoopers, twice to discuss the audit plan of the Group for the year ended 31 March 2006 and any areas of concerns during the audit respectively, without the presence of the management of the Company. The Audit Committee also held another meeting with PricewaterhouseCoopers on 11 December 2006 to discuss the unaudited condensed financial statements of the Company for the six months ended 30 September 2006.

The final 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.

Accountability

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group.

In preparing the accounts for the year ended 31 March 2007, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the year ended 31 March 2007 have been prepared on a going concern basis.

PricewaterhouseCoopers, the auditors of the Company, acknowledges their reporting responsibilities in the auditors' report on the financial statements of the Group for the year ended 31 March 2007.

Internal Controls

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.

The process used in reviewing the effectiveness of system of internal control of the Group includes discussion with management on risk areas identified by management.

In addition, the Company has engaged CNT. & Co, Certified Public Accountants, to perform internal control review on certain procedures, systems and controls (including finance and management) of the Group. An internal control review report has been submitted to the Audit Committee and the Board by CNT. & Co. CNT. & Co is not aware of any significant deficiency in the systems of internal control of the Group.

Corporate Communication

The Company is committed to a policy of open and regular communication and fair disclosure of information to the Shareholders. The Company acknowledges that accurate and fair disclosures are necessary for the Shareholders to form their own judgment on the operation and performance of the Group.

Right to Demand a Poll

The Company informs the Shareholders (in its circulars convening a general meeting) the procedures for voting by poll and the rights of Shareholders to demand a poll to ensure compliance with the requirements on the poll voting procedures. Pursuant to Article 90 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded by:

(i) the Chairman of the meeting; or

(ii) at least five Shareholders present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and entitled to vote; or

(iii) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all the Shareholders having the right to attend and vote at the meeting; or

(iv) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and holding Shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2007.

Principal Activities and Segment Analysis of Operations

As at 31 March 2007, the principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are provision of beauty and healthcare services and sales of skincare products and equipment. Particulars of the Company's subsidiaries are set out in Note 8 to the consolidated financial statements.

An analysis of the Group's turnover and results for the year by business segments is set out in Note 5 to the consolidated financial statements.

Results and Appropriation

The results of the Group for the year are set out in the financial statements on page 72. The Directors recommend the payment of a final dividend of HK 8 cents and a special final dividend of HK 4.8 cents per Share respectively to Shareholders whose names appear on the register of Shareholders of the Company on 22 August 2007. During the year, the Directors have declared an interim dividend of HK7 cents and a special dividend of HK1 cent per Share respectively, amounting to approximately HK$57.7 million to the Shareholders.

Reserves

Details of movements in reserves of the Group and the Company during the year are set out in Note 16 to the consolidated financial statements.

Distributable Reserves of the Company

Under the Companies Law (2004 Revision) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its Memorandum or Articles of Association. As at 31 March 2007, the Company's reserves available for distribution to Shareholders amounted in total to approximately HK$202 million (2006: HK$191 million).

Financial Summary

A summary of the financial results and position of the Group for the last five financial years is set out on page 116.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in Note 6 to the consolidated financial statements.

Share Capital

Details of movements of the Company's share capital during the year are set out in Note 15 to the consolidated financial statements.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Charitable Contributions

During the year, the Group made charitable donations totaling HK$800,000.

Directors

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:
Ms. Tsang Yue, Joyce
Mr. Lee Soo Ghee
Ms. Yuen Siu Ping
Mr. Hung Fan Kwan
Mr. Yip Kai Wing

Independent Non-executive Directors:
Mr. Wong See Hong
Mr. Yu How Yuen
Mr. Cheng Kai Tai, Allen

In accordance with Article 130 of the Company's Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

In addition, pursuant to the Company's Articles of Association, the Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Three of the executive Directors, Ms. Tsang Yue, Joyce, Mr. Lee Soo Ghee and Ms. Yuen Siu Ping shall retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election at that meeting.

Directors' Service Contracts

Each of Ms. Tsang Yue, Joyce, Mr. Lee Soo Ghee, Ms. Yuen Siu Ping, Mr. Hung Fan Kwan and Mr. Yip Kai Wing has entered into a service contract with the Company dated 20 January 2006 under which they each agreed to act as an executive Director for a term of three years commencing from 9 February 2006 unless terminated by, in the case of Ms. Tsang Yue, Joyce and Mr. Lee Soo Ghee not less than three months' notice and, in the case of Ms. Yuen Siu Ping, Mr. Hung Fan Kwan and Mr. Yip Kai Wing, not less than one month's notice in writing served by either party on the other; whereas each of Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen has entered into a letter of appointment dated 20 January 2006 for a term of three years commencing from 9 February 2006.

Save as disclosed above, none of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

Save as disclosed above, in the paragraph headed "Connected Transactions" and in Note 29 to the consolidated financial statements, no contract of significance to the business of the Group to which the Company, its subsidiaries, its holding companies or any subsidiaries of its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Competing Interest

JF (Singapore) Group (comprising JF Holdings (S) Pte Limited and its subsidiaries) is principally engaged in the provision of beauty and healthcare services at its network of beauty centres in Singapore and engaged in the provision of beauty services in Malaysia while the Group is principally engaged in the provision of beauty and healthcare services and sale of skincare products and equipment in Hong Kong. Ms. Tsang Yue, Joyce is the sole director of JF (Singapore) Group. Given that JF (Singapore) Group is principally engaged in the provision of beauty services in Singapore and Malaysia, which is in a different geographical location from that of the Group, the Directors consider that the business activities of JF (Singapore) Group does not compete with those of the Group.

Nevertheless, each of JF Holdings (S) Pte Limited and Ms. Tsang Yue, Joyce has entered into a deed of undertaking in favour of the Group to the effect that each of them will not, and will procure that none of its subsidiaries (other than the Group) and the companies controlled by her (other than the Group), respectively, will engage or otherwise be involved in any business which competes or is likely to compete with any of the business carried on by any member of the Group in relation to the provision of (i) beauty and facial services, (ii) spa and massage services, (iii) slimming services, (iv) fitness services and sales of skincare products and equipment, as at 9 February 2006 in any of the regions in the world (but exclude Singapore and Malaysia).

Save as disclosed herein and in the paragraph headed "Connected Transactions", none of the Directors or their respective associates (as defined in the Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

Biography of Directors and Senior Management

Biographical details of the Directors and senior management of the Group are set out in the section headed "Directors and Senior Management Profile" of the annual report.

Directors' and Chief Executive's Interests or Short Positions in Shares, Underlying Shares or Debentures

At 31 March 2007, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which will be required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), or will be required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in Shares/underlying Shares of the Company

Name of Director	Capacity/ Nature of interest	Number of Shares	Number of Shares subject to options granted under the Pre-IPO Share Option Scheme *(Note 1)*	Number of Shares subject to options granted under the Share Option Scheme *(Note 1)*	Total Shares	Approximate percentage of issued Shares *(Note 2)*
Ms. Tsang Yue, Joyce	Interests of controlled corporations	468,000,000 *(Note 3)*	–	–	468,000,000	64.69%
	Beneficial owner	600,000	–	1,350,000 *(Note 4)*	1,950,000	0.27%
	Interest of spouse	650,000	–	1,350,000 *(Note 4)*	2,000,000	0.28%
Mr. Lee Soo Ghee	Beneficial owner	650,000	–	1,350,000 *(Note 4)*	2,000,000	0.28%
	Interest of spouse	468,600,000 *(Note 5)*	–	1,350,000 *(Note 4)*	469,950,000	64.96%
Ms. Yuen Siu Ping	Beneficial owner	580,000	–	1,500,000	2,080,000	0.29%
Mr. Hung Fan Kwan	Beneficial owner	300,000	–	1,000,000	1,300,000	0.18%
Mr. Yip Kai Wing	Beneficial owner	60,000	125,000	500,000	685,000	0.09%

Notes:

1. Further details of the interests of the Directors in the options under the Pre-IPO Share Option Scheme and the Share Option Scheme are set out under the paragraph headed "Share Option Schemes" below.

2. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2007, ie. 723,395,000 Shares.

3. Ms. Tsang Yue, Joyce owns the entire shareholding in Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp., each holding 367,200,000 Shares and 100,800,000 Shares, respectively.

4. Ms. Tsang Yue, Joyce has been granted an option for 1,350,000 Shares under the Share Option Scheme and Mr. Lee Soo Ghee has been granted an option for 1,350,000 Shares under the Share Option Scheme. Mr. Lee Soo Ghee is the husband of Ms. Tsang and, for the purposes of the SFO, Mr. Lee is deemed or taken to be interested in the options granted to Ms. Tsang under the Share Option Scheme and Ms. Tsang is deemed or taken to be interested in the options granted to Mr. Lee under the Share Option Scheme.

5. Mr. Lee Soo Ghee is the husband of Ms. Tsang and is deemed to be interested in the Shares in which Ms. Tsang is deemed or taken to be interested for the purpose of the SFO.

Long positions in shares of the associated corporations of the Company

Name of Director	Capacity	Name of the associated corporation	Number of Shares	Percentage of the issued shares of the associated corporation
Ms. Tsang Yue, Joyce	Beneficial owner	Silver Compass Holdings Corp.	100 *(Note)*	100%
	Beneficial owner	Silver Hendon Enterprises Corp.	100 *(Note)*	100%

Note: Both Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. (each holding 367,200,000 Shares and 100,800,000 Shares, respectively) are wholly-owned by Ms. Tsang Yue, Joyce.

Save as disclosed above, none of the Directors or chief executives of the Company had, at 31 March 2007, any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he was taken or deemed to have under such provisions of the SFO), or which would have to be, pursuant to section 352 of the SFO, entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares

Save as disclosed in the paragraph headed "Share Option Schemes" below and the parapraph headed "Directors' and Chief Executive's Interests or Short Positions in Shares, Underlying Shares or Debentures" above, at no time during the year, were rights to acquire benefits by means of the acquisitions of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its subsidiaries, its holding companies, or any subsidiaries of its holding companies a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Interests and Short Positions of Shareholders

So far as is known to any Directors or chief executives of the Company, at 31 March 2007, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions of substantial Shareholders in the Shares and underlying Shares of the Company

Name	Capacity	Number of Shares	Approximate percentage of issued Shares *(Note 1)*
Silver Compass Holdings Corp.	Beneficial owner	367,200,000 *(Note 2)*	50.76%
Silver Hendon Enterprises Corp.	Beneficial owner	100,800,000 *(Note 2)*	13.93%

Notes:

1. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2007, ie. 723,395,000 Shares.

2. Both Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. are wholly owned by Ms. Tsang Yue, Joyce.

Save as disclosed above, at 31 March 2007, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Share Option Schemes

The Company has adopted a Pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and a share option scheme ("Share Option Scheme") on 20 January 2006 respectively whereby the Directors are authorised to invite any employee (whether full-time or part-time), director, consultant or adviser of the Group, to take up options to subscribe for Shares at a nominal consideration of HK$1.00 per grant under the Pre-IPO Share Option Scheme and the Share Option Scheme respectively. Each option gives the holder the right to subscribe for one Share.

Pursuant to the Pre-IPO Share Option Scheme, an aggregate of 3,600,000 options were granted on 24 January 2006. Movement of the options granted under the Pre-IPO Share Option Scheme during the year are set out below. The Pre-IPO Share Option Scheme was terminated the day immediately before 9 February 2006.

During the year, the Company has granted 15,640,000 options pursuant to the Share Option Scheme. Movement of the options granted under the Share Option Scheme during the year are set out below.

A. Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to give employees, directors, consultants and advisors of the Group an opportunity to have a personal stake in the Company and help motivate them to optimize their performance and efficiency and attract and retain them whose contributions are important to the long-term growth and profitability of the Group.

The principal terms of the Pre-IPO Share Option Scheme, approved and adopted by written resolutions of the then Shareholders of the Company dated 20 January 2006 are similar to the terms of the Share Option Scheme (as set out below) except for the following:

(a) the subscription price per Share shall be HK$0.60; and

(b) save for the options which have been granted (with details set out below), no further options will be offered or granted, as the right to do so will end upon the listing of Shares on the Stock Exchange.

Details of the options granted under the Pre-IPO Share Option Scheme have been disclosed below:

Grantee	No. of options as at 1 April 2006	No. of shares acquired on exercise of options	No. of options cancelled/lapsed during the year	No. of options as at 31 March 2007	Date of grant	Period during which options are exercisable	Exercise price per share
Directors							
Ms. Tsang Yue, Joyce	300,000	(300,000)	–	–	24 January 2006	9 August 2006 to 8 February 2011	HK$0.60
Ms. Tsang Yue, Joyce	300,000	(300,000)	–	–	24 January 2006	9 February 2007 to 8 February 2011	HK$0.60
Mr. Lee Soo Ghee	325,000	(325,000)	–	–	24 January 2006	9 August 2006 to 8 February 2011	HK$0.60
Mr. Lee Soo Ghee	325,000	(325,000)	–	–	24 January 2006	9 February 2007 to 8 February 2011	HK$0.60
Ms. Yuen Siu Ping	350,000	(350,000)	–	–	24 January 2006	9 August 2006 to 8 February 2011	HK$0.60
Ms. Yuen Siu Ping	350,000	(350,000)	–	–	24 January 2006	9 February 2007 to 8 February 2011	HK$0.60
Mr. Hung Fan Kwan	150,000	(150,000)	–	–	24 January 2006	9 August 2006 to 8 February 2011	HK$0.60
Mr. Hung Fan Kwan	150,000	(150,000)	–	–	24 January 2006	9 February 2007 to 8 February 2011	HK$0.60
Mr. Yip Kai Wing	125,000	(125,000)	–	–	24 January 2006	9 August 2006 to 8 February 2011	HK$0.60
Mr. Yip Kai Wing	125,000	–	–	125,000	24 January 2006	9 February 2007 to 8 February 2011	HK$0.60
Employees	550,000	(510,000)	(40,000)	–	24 January 2006	9 August 2006 to 8 February 2011	HK$0.60
Employees	550,000	(510,000)	(40,000)	–	24 January 2006	9 February 2007 to 8 February 2011	HK$0.60
Total	3,600,000	(3,395,000)	(80,000)	125,000			

Information on the accounting policy for options granted under the Pre-IPO Share Option Scheme and the fair value of the options is provided in Note 15 to the consolidated financial statements.

B. The Share Option Scheme

Relevant information relating to the Share Option Scheme is set out as follows:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give employees, directors, consultants and advisors of the Group an opportunity to have a personal stake in the Company and help motivate them to optimise their performance and efficiency and attract and retain them whose contributions are important to the long-term growth and profitability of the Group.

(b) Participants of the Share Option Scheme

The Board may, at its absolute discretion and on such terms as it may think fit, offer any employee (whether full-time or part-time), director, consultant or adviser of the Group (the "Participant") options to subscribe for Shares at the price calculated in accordance with paragraph (e) below and subject to the other terms of the Share Option Scheme. The basis of eligibility of any of the Participants to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group based on his performance and/or years of service and other relevant factors. An offer of grant of an option may be accepted by a grantee, upon acceptance of the option, the grantee shall pay HK$1.00 to the Company on acceptance of the offer for the grant of the option as consideration for the grant.

(c) Maximum number of Shares Available for Issue under the Share Option Scheme

Except with the approval of the Shareholders at general meeting, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company as at 9 February 2006 or 30% of the issued share capital of the Company from time to time. No options may be granted under the Scheme if this will result in such limit being exceeded.

(d) Maximum Entitlement of Each Participant under the Share Option Scheme

Except with the approval of the Shareholders at general meeting, no option shall be granted to any participant if any further grant of options would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant would exceed 1% of the total number of Shares in issue.

(e) Basis of Determining the Exercise Price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board and notified to the Participants and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

(f) Period of the Share Option Scheme

Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of ten years commencing from 20 January 2006, after which period no further option shall be granted.

Details of the options granted under the Share Option Scheme were as follows:

Grantee	No. of options as at 1 April 2006	No. of options granted during the year	No. of options cancelled/ lapsed during the year	No. of Shares acquired on exercise of options during the year	No. of options as at 31 March 2007	Date of grant	Period during which options are exercisable	Exercise price per share
Directors								
Ms. Tsang Yue, Joyce	–	337,500	–	–	337,500	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33
Ms. Tsang Yue, Joyce	–	472,500	–	–	472,500	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33
Ms. Tsang Yue, Joyce	–	540,000	–	–	540,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33
Mr. Lee Soo Ghee	–	337,500	–	–	337,500	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33
Mr. Lee Soo Ghee	–	472,500	–	–	472,500	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33
Mr. Lee Soo Ghee	–	540,000	–	–	540,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33
Ms. Yuen Siu Ping	–	375,000	–	–	375,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33
Ms. Yuen Siu Ping	–	525,000	–	–	525,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33
Ms. Yuen Siu Ping	–	600,000	–	–	600,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33
Mr. Hung Fan Kwan	–	250,000	–	–	250,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33

Grantee	No. of options as at 1 April 2006	No. of options granted during the year	No. of options cancelled/ lapsed during the year	No. of Shares acquired on exercise of options during the year	No. of options as at 31 March 2007	Date of grant	Period during which options are exercisable	Exercise price per share
Mr. Hung Fan Kwan	–	350,000	–	–	350,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33
Mr. Hung Fan Kwan	–	400,000	–	–	400,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33
Mr. Yip Kai Wing	–	125,000	–	–	125,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33
Mr. Yip Kai Wing	–	175,000	–	–	175,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33
Mr. Yip Kai Wing	–	200,000	–	–	200,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33
Employees	–	2,485,000	(145,000)	–	2,340,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33
Employees	–	3,479,000	(203,000)	–	3,276,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33
Employees	–	3,976,000	(232,000)	–	3,744,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33
Total	–	15,640,000	(580,000)	–	15,060,000			

Note: Information on the accounting policy for options granted under the Share Option Scheme and the fair value of the options is provided in Note 15 to the consolidated financial statements.

Appointment of Independent Non-executive Directors

The Company has received, from each of the existing Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company and the Group were entered into or existed during the year.

Major Customers and Suppliers

During the year ended 31 March 2007, purchases from the Group's five largest suppliers accounted for 46.43% (2006: 25.33%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 15.3% (2006: 6.7%).

Sales to the Group's five largest customers in aggregate accounted for less than 5% of the Group's total sales for both years. None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

Connected Transactions

The following transactions of the Group constituted continuing connected transactions under the Listing Rules during the year ended 31 March 2007:

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

   Tenancy Agreement of Shops Nos. 11-13 of Kam Shan Building, Tai Wai, New Territories

   On 15 September 2006, a tenancy agreement ("Kam Shan Tenancy Agreement") was entered into between Luck Elegant Industrial Limited, a company controlled by Ms. Tsang Yue, Joyce falling outside the Group, and Modern Beauty Salon (Hong Kong) Limited, a wholly owned subsidiary of the Company included in the Group, pursuant to which Modern Beauty Salon (Hong Kong) Limited leased from Luck Elegant Industrial Limited the premises at Shops Nos. 11-13 on the Ground Floor of Kam Shan Building, Nos.1-5, 9, 13-27 & 31-35 Tai Wai Road, Tai Wai, Shatin, New Territories, Hong Kong as a service centre of the Group. The duration of the Kam Shan Tenancy Agreement is three years commencing from 18 September 2006 and expiring on 17 September 2009, both dates inclusive.

   The premises is being used as a service centre of the Company in Shatin, which is neighboring another service centre of the Company rented from a landlord who is a third party independent of the Company and the connected persons of the Company.

   The rental paid by the Group to Luck Elegant Industrial Limited under the Kam Shan Tenancy Agreement amounted to HK$900,667 for the year ended 31 March 2007. The annual rental is calculated based on a monthly rental of HK$140,000.

   The terms of the Tenancy Agreement were arrived at after arm's length negotiation and on normal commercial terms. The rental of the Tenancy Agreement was determined by reference to the prevailing market rental value of the Property as at 31 August 2006, as assessed by an independent property valuer.

   The above disclosure relating to the Kam Shan Tenancy Agreement is made in accordance with Rule 14A.46 of the Listing Rules.

B. The following continuing connected transactions are exempt from the reporting, announcement or independent shareholders' approval requirement under Rule 14A.33 of the Listing Rules and are included herein for information only.

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

On 26 January 2006, Koladen Enterprises Inc. ("Koladen"), a wholly-owned subsidiary of the Company, (on behalf of the Group) and JF Holdings (S) Pte Limited ("JFH"), a company controlled by Ms. Tsang Yue, Joyce falling outside the Group entered into an agreement for the licensing of trademarks. Under this agreement, Koladen on behalf of the registered owners of certain trademarks granted a non-exclusive, non-transferable and revocable license to JFH together with its subsidiaries (collectively referred to as the "JF (Singapore) Group") authorising JF (Singapore) Group to use in Singapore and Malaysia the trademarks which are currently and will be in the future owned by any member of the Group ("Trademarks"). The duration of the Trademark Licensing Agreement is commenced immediately following completion of the initial public offering of the Shares of the Company on 9 February 2006 to 31 March 2008.

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

In view of the above, the Directors confirmed that the terms of the Trademark Licensing Agreement, in particular the calculation of license fee, which allows the Group to share the gains (3% of audited profit with a maximum and a minimum amount) whilst guaranteeing a minimum amount of income, are in accordance with market practice, fair and reasonable to both the Group and the JF (Singapore) Group and are on normal commercial terms.

For the year ended 31 March 2007, the aggregate amount payable by JFH to the Group for the license fee amounted to approximately HK$400,000.

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

On 1 January, 2006, Chain Tech International Limited, a company controlled by Ms. Tsang Yue, Joyce falling outside the Group, and MOH Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Carnarvon Tenancy Agreement") pursuant to which MOH Limited leased from Chain Tech International Limited, the premises at 1st Floor, No. 46 Carnarvon Road, Tsimshatsui, Kowloon as a service centre of the Group. The duration of the Carnarvon Tenancy Agreement is three years ending on 31 December 2008.

The rental paid by the Group in relation to the premises amounted to HK$432,000 for the year ended on 31 March 2007.

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, on terms no less favourable to the Company than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Directors of the Company have engaged the auditors to perform certain agreed-upon procedures on the aforesaid continuing connected transactions on a sample basis and the auditors have, based on the work performed, provided a letter to the Directors of the Company stating that:

1. the transactions have been approved by the Company's Directors;

2. the transactions were entered into in accordance with the pricing policies of the Company;

3. the transactions were entered into in accordance with the terms of the relevant agreements governing such transactions;

4. the transactions in respect of the Trademark Licensing Agreement and the Carnarvon Tenancy Agreement did not exceed the relevant annual limits as set out in the prospectus of the Company dated 27 January 2006; and

5. the transaction in respect of the Kam Shan Tenancy Agreement did not exceed the relevant annual limits as set out in the announcement of the Company on 15 September 2006.

Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that the Company has maintained the prescribed public float under the Listing Rules.

Purchase, Sale or Redemption of the Company's Listed Securities

Pursuant to the written resolutions passed by the Shareholders on 15 August 2006, a general mandate was granted to the Directors to exercise the powers of the Company to purchase Shares up to a maximum of 10% of the issued share capital of the Company.

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.

Audit Committee

The Group's annual report for the year ended 31 March 2007 has been reviewed by the Audit Committee. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 46 to 51.

Sponsor's Interest

Pursuant to the compliance advisor agreement between the Company and Sun Hung Kai International Limited, Sun Hung Kai International Limited received usual compliance advisor fees for acting as the Company's compliance advisor for the period from 1 April 2006 to 31 March 2007.

Auditors

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

By order of the Board
Ms. Tsang Yue, Joyce
Chairperson and Chief Executive Officer

Hong Kong, 16 July 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
MODERN BEAUTY SALON HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 69 to 114, which comprise the consolidated and Company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 July 2007

Consolidated Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	77,216	55,774
Leasehold land prepayments	7	26,661	27,325
Financial assets at fair value through profit or loss	9	–	67,979
Trade and other receivables, deposits and prepayments	10	17,295	9,707
Deferred income tax assets	11	2,977	2,854
		124,149	163,639
Current assets			
Inventories	12	10,618	6,689
Trade and other receivables, deposits and prepayments	10	47,749	56,550
Current income tax assets		7,121	4,638
Pledged bank deposits	13	10,707	52,286
Cash and cash equivalents	14	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	15	72,340	72,000
Share premium and reserves	16	237,147	213,272
Total equity		309,487	285,272
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	11	79	50

Consolidated Balance Sheet

As at 31 March 2007

	Note	2007 *HK$'000*	2006 *HK$'000*
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*17*	41,114	29,535
Deferred revenue	*18*	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

On behalf of the Board

Tsang Yue, Joyce
Director

Hung Fan Kwan, Frankie
Director

The notes on pages 76 to 114 form an integral part of these financial statements.

Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*8*	101,076	101,076
Current assets			
Amounts due from subsidiaries	*8*	100,893	7,039
Cash and cash equivalents	*14*	72,533	155,212
		173,426	162,251
Total assets		274,502	263,327
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*15*	72,340	72,000
Share premium and reserves	*16*	202,160	191,327
Total equity		274,500	263,327
LIABILITIES			
Current liabilities			
Trade and other payables, deposits received and accrued expenses		2	–
Total equity and liabilities		274,502	263,327
Net current assets		173,424	162,251
Total assets less current liabilities		274,500	263,327

On behalf of the Board

Tsang Yue, Joyce
Director

Hung Fan Kwan, Frankie
Director

The notes on pages 76 to 114 form an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 March 2007

	Note	2007 *HK$'000*	2006 *HK$'000*
Turnover	*5*	614,064	498,265
Other gains – net	*19*	5,781	6,652
Cost of inventories sold		(18,706)	(13,036)
Employee benefits expenses	*20*	(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	*21*	185,028	129,888
Interest income		25,440	13,589
Profit before income tax		210,468	143,477
Income tax expenses	*22*	(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	*23*	24.61	21.68
– Diluted	*23*	24.52	21.63
Dividends	*25*	150,352	217,360

The notes on pages 76 to 114 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Merger reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 April 2005	54,000	–	–	(53,982)	118,717	118,735
Issue of shares in connection with listing	18,000	143,582	–	–	–	161,582
Employee share option reserve – value of employee services	–	–	444	–	–	444
Profit for the year	–	–	–	–	122,511	122,511
Dividends paid	–	–	–	–	(118,000)	(118,000)
Balance at 31 March 2006	72,000	143,582	444	(53,982)	123,228	285,272
Balance at 1 April 2006	72,000	143,582	444	(53,982)	123,228	285,272
Employee share option reserve – value of employee services	–	–	1,860	–	–	1,860
Exercise of share options	340	3,174	(1,476)	–	–	2,038
Lapse of share option	–	–	(54)	–	54	–
Profit for the year	–	–	–	–	177,418	177,418
2006 final dividends paid	–	–	–	–	(99,360)	(99,360)
2007 interim dividends paid	–	–	–	–	(50,523)	(50,523)
2007 final dividends paid	–	–	–	–	(7,218)	(7,218)
Balance at 31 March 2007	72,340	146,756	774	(53,982)	143,599	309,487

The notes on pages 76 to 114 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	2007 *HK$'000*	2006 *HK$'000*
Cash flows from operating activities			
Profit before income tax		210,468	143,477
Adjustments for:			
– Amortisation of leasehold land prepayments	*7*	664	560
– Depreciation of property, plant and equipment	*6*	25,485	21,454
– Interest income		(25,440)	(13,589)
– Share option expenses		1,860	444
– Gain on disposal of property, plant and equipment	*26*	(2,500)	–
– Net fair value gains on revaluation of financial assets at fair value through profit or loss – unrealised and realised	*19*	(1,264)	(4,862)
– Dividend income from financial assets at fair value through profit or loss	*19*	–	(255)
Changes in working capital:		209,273	147,229
– Inventories		(3,929)	(93)
– Trade and other receivables, deposits and prepayments		1,213	(9,725)
– Amounts due from related companies		–	(113,148)
– Amount due from a director		–	203,395
– Trade and other payables, deposits received and accrued expenses		11,579	10,041
– Deferred revenue		(106,405)	(23,520)
– Amounts due to related companies		–	(42,673)
Cash generated from operations		111,731	171,506
Interest received		25,440	13,589
Income tax paid		(29,205)	(40,994)
Net cash generated from operating activities		107,966	144,101

	Note	2007 HK$'000	2006 HK$'000
Cash flows from investing activities			
Purchase of leasehold land	7	–	(17,358)
Purchase of property, plant and equipment	6	(44,427)	(31,221)
Proceeds from disposal of property, plant and equipment		–	72
Purchase of financial assets at fair value through profit or loss	9	–	(63,376)
Proceeds from disposal of financial assets at fair value through profit or loss		69,243	58,044
Dividend income	19	–	255
Decrease/(increase) in pledged bank deposits		41,579	(766)
Net cash generated from/(used in) investing activities		66,395	(54,350)
Cash flows from financing activities			
Proceeds from issue of shares	15	2,038	180,000
Share issuance expenses		–	(18,418)
Dividends paid	25	(157,101)	–
Net cash (used in)/generated from financing activities		(155,063)	161,582
Net increase in cash and cash equivalents		19,298	251,333
Cash and cash equivalents at beginning of the year		565,655	314,322
Cash and cash equivalents at end of the year	14	584,953	565,655

The notes on pages 76 to 114 form an integral part of these financial statements.

1 General information

Modern Beauty Salon Holdings Limited (the "Company") was incorporated in the Cayman Islands on 19 August 2005. The shares have been listed on the Main Board of the Stock Exchange of Hong Kong (the "Stock Exchange"). Pursuant to a group reorganisation ("Reorganisation") in preparation of the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 24 January 2006. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group ("the Group"). Accordingly, the financial statements of the Group for the year ended 31 March 2006 have been prepared using the merger basis of accounting as if the Company had been the holding company of the Group from the beginning of the earliest year presented.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of beauty and healthcare services. The address of its registered office is M&C Corporate Services Limited, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Group is controlled by Silver Compass Holdings Corp ("SCHC") (incorporated in the British Virgin Islands), which owns 51% of the Company's shares. The remaining 14% of the shares are held by Silver Hendon Enterprises Corporation ("SHEC") and 35% are widely held. The Directors regard Silver Compass Holdings Corporation as being the immediate and ultimate holding company.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

The consolidated financial statements have been approved for issue by the Board of Directors on 16 July 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the year's presented, unless otherwise stated.

2.1 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(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:

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

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 Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 March.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 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.

2.4 Foreign currency translation

(a) Functional and presentation 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 consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(b) 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) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 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.

Leasehold improvements are depreciated over the period of lease or their expected useful lives to the Group whichever is shorter. Other property, plant and equipment are depreciated at rates sufficient to write off their costs over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

–	Leasehold buildings	Over the lease term
–	Leasehold improvements	Over the lease term
–	Equipment and machinery	4 years
–	Furniture and fixtures	4 years
–	Motor vehicles	3 years
–	Computers	3 years

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statements.

2.6 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.

2.7 Impairment of investments in subsidiaries

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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 costs 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial Assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

2.9 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 selling expenses.

2.10 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 original effective interest rate. The amount of the loss is recognised in the income statement within other operating expenses. Subsequent recoveries of amounts written off are credited against other operating expenses in the income statement.

2 Summary of significant accounting policies (continued)

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

2.12 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.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Deferred income tax

Deferred income 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 consolidated financial statements. However, if the deferred income tax for 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 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) 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.

2 Summary of significant accounting policies (continued)

2.15 Employee benefits (continued)

(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.

2.16 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as employee share option expense in income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to employee share-based compensation reserve over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Provision

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely 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.

2 Summary of significant accounting policies (continued)

2.17 Provision (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Revenue recognition

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

Revenue from sales of beauty and healthcare services is recognised when services treatments are delivered to customers. 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 skincare 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.

2.19 Leases

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

2.20 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 statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.21 Dividend distribution

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

3 Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange 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 foreign exchange 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 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 bank deposits.

(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.

4 Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of store renovation and relocation. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

4 Critical accounting estimates and judgment (continued)

(b) Income taxes

The Group is subject to income taxes in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

5 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

5 Segment information (continued)

	Group	
	2007	2006
	HK$'000	*HK$'000*
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
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)

5 Segment information (continued)

	Group	
	2007 *HK$'000*	2006 *HK$'000*
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

6 Property, plant and equipment

	Group						
	Leasehold buildings	Leasehold improvements	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 31 March 2006							
Opening net book amount	11,109	22,520	8,192	418	2,960	880	46,079
Additions	2,680	13,211	10,720	347	3,100	1,163	31,221
Disposal/write-off	–	–	(72)	–	–	–	(72)
Depreciation	(313)	(13,629)	(3,864)	(133)	(2,891)	(624)	(21,454)
Closing net book amount	13,476	22,102	14,976	632	3,169	1,419	55,774
As at 31 March 2006							
Cost	14,495	87,411	60,516	5,470	11,954	4,603	184,449
Accumulated depreciation	(1,019)	(65,309)	(45,540)	(4,838)	(8,785)	(3,184)	(128,675)
Net book amount	13,476	22,102	14,976	632	3,169	1,419	55,774
Year ended 31 March 2007							
Opening net book amount	13,476	22,102	14,976	632	3,169	1,419	55,774
Additions	–	31,876	10,470	602	2,699	1,280	46,927
Disposal/write-off	–	–	–	–	–	–	–
Depreciation	(328)	(14,886)	(6,604)	(264)	(2,494)	(909)	(25,485)
Closing net book amount	13,148	39,092	18,842	970	3,374	1,790	77,216
As at 31 March 2007							
Cost	14,495	81,454	70,986	6,072	8,926	5,879	187,812
Accumulated depreciation	(1,347)	(42,362)	(52,144)	(5,102)	(5,552)	(4,089)	(110,596)
Net book amount	13,148	39,092	18,842	970	3,374	1,790	77,216

The leasehold buildings are situated in Hong Kong and held under medium term leases between 10 to 50 years.

7 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:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At beginning of the year	27,325	10,527
Additions	–	17,358
Amortisation	(664)	(560)
At end of the year	26,661	27,325

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
In Hong Kong held on:		
Leases of between 10 to 50 years	26,661	27,325

8 Investments in subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	101,076	101,076
Amounts due from subsidiaries	100,893	7,039
	201,969	108,115

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

8 Investments in subsidiaries (continued)

The following is a list of the principal subsidiaries as at 31 March 2007:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued and fully paid up share capital	Interest held Direct	Interest held Indirect
BE Universal Limited	Hong Kong, limited liability company	Sales of skincare products, Hong Kong	1,000 ordinary shares of HK$1	–	100%
Beauty Expert (B.V.I.) Limited	British Virgin Islands, limited liability company	Provision of franchise and trademark services in relation to the provision of beautification and gymnastic services, Hong Kong	1,000 ordinary shares of US$1	–	100%
Beauty Expert (International) Limited	Hong Kong, limited liability company	Provision of management services and sales of skincare product, Hong Kong	10,000 ordinary shares of HK$1	–	100%
Beauty Expert (Logistics) Limited	Hong Kong, limited liability company	Sales of skincare products and leasing of fixed assets, Hong Kong	10,000 ordinary shares of HK$1	–	100%
East Union Industries Limited	Hong Kong, limited liability company	Property investment for rental income, Hong Kong	10,000 ordinary shares of HK$1	–	100%
Giant Harvest Advertising & Communications Ltd	Hong Kong, limited liability company	Provision of advertising services, Hong Kong	1 ordinary share of HK$1	–	100%
Joy East Limited	Hong Kong, limited liability company	Property investment, Hong Kong	1,000 ordinary shares of HK$1	–	100%
Kin Yik Bomedical Technology Ltd.	Hong Kong, limited liability company	Provision of beauty and healthcare services and sales of skincare products, Hong Kong	2 ordinary shares of HK$1	–	100%
Koladen Enterprises Inc.	British Virgin Islands, limited liability company	Investment holding, Hong Kong	100 ordinary shares of US$1	100%	–

8 Investments in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued and fully paid up share capital	Interest held	
				Direct	Indirect
Lucky Days Investments Inc.	British Virgin Islands, limited liability company	Provision of franchise services in relation to the provision of beautification and gymnastic services, Hong Kong	1 ordinary share of US$1	–	100%
MAD Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MCB Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MCP Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	1,000 ordinary shares of HK$1	–	100%
MEH Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MFW Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MHWC Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MIR Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MKL Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
Modern (Human Resource) Limited	Hong Kong, limited liability company	Provision of management services, Hong Kong	10,000 ordinary shares of HK$1	–	100%

8 Investments in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued and fully paid up share capital	Interest held Direct	Interest held Indirect
Modern Advertising (HK) Limited	Hong Kong, limited liability company	Provision of advertising services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
Modern Beauty Holdings Limited	British Virgin Islands, limited liability company	Investment holding, Hong Kong	1,000 ordinary shares of US$1	–	100%
Modern Beauty Management Company Limited	Hong Kong, limited liability company	Investment holding, Hong Kong	1,000 ordinary shares of HK$1	–	100%
Modern Beauty Salon (HK) Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services and sales of skincare products, Hong Kong	2 ordinary shares of HK$1	–	100%
Modern Beauty Salon (International) Limited	British Virgin Islands, limited liability company	Provision of sub-franchising services in relation to the provision of beautification and gymnastic services, Hong Kong	450,000 preferred shares of US$0.1 and 50,000 ordinary shares of US$0.1	–	100%
Modern Beauty Saloon Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MOH Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
Moral Management Limited	Hong Kong, limited liability company	Investment holding, Hong Kong	1 ordinary share of HK$1	–	100%
MPA Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	1,000 ordinary shares of HK$1	–	100%
MQQ Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%

8 Investments in subsidiaries (continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Issued and fully paid up share capital	Interest held Direct	Interest held Indirect
MWH Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
Nice Sound Investments Ltd.	British Virgin Islands, limited liability company	Investment holding, Hong Kong	1 ordinary share of US$1	–	100%
Step Well Investment Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	1,000 ordinary shares of HK$1	–	100%
Topluck International Holdings Limited	Hong Kong, limited liability company	Sales of beauty and healthcare services, Hong Kong	1,000 ordinary shares of HK$1	–	100%
Well Faith International Enterprise Limited	Hong Kong, limited liability company	Property investment for rental income, Hong Kong	1,000 ordinary shares of HK$1	–	100%
Wise World Limited	Hong Kong, limited liability company	Property investment, Hong Kong	1,000 ordinary shares of HK$1	–	100%

9 Financial assets at fair value through profit or loss

	Group	
	2007 *HK$'000*	2006 *HK$'000*
At beginning of the year	67,979	57,785
Additions	–	63,376
Fair value gains – unrealised	–	414
Disposal	(67,979)	(53,596)
At end of the year	–	67,979

	2007 *HK$'000*	2006 *HK$'000*
Unlisted funds investing in equity and debt securities	–	67,979

10 Trade and other receivables, deposits and prepayments

	Group	
	2007	2006
	HK$'000	*HK$'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 *(note 29(b))*	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	2006
	HK$'000	*HK$'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.

11 Deferred income tax

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

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Deferred income tax assets to be recovered after more than 12 months	2,977	2,854
Deferred income tax liabilities to be settled after more than 12 months	(79)	(50)
	2,898	2,804

The gross movement on the deferred income tax is as follows:

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Beginning of the year	2,804	1,479
Recognised in the consolidated income statement *(note 22)*	94	1,325
End of the year	2,898	2,804

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$849,000 (2006: HK$250,000) in respect of losses amounting to approximately HK$4,851,000 (2006: HK$1,427,000) that can be carried forward against future taxable income.

11 Deferred income tax (continued)

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

Deferred income tax assets:

	Group					
	Accelerated tax depreciation		Others		Total	
	2007 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*	2006 *HK$'000*	2007 *HK$'000*	2006 *HK$'000*
Beginning of the year	2,768	1,357	86	225	2,854	1,582
Credited/(charged) to consolidated income statement	123	1,411	–	(139)	123	1,272
End of the year	2,891	2,768	86	86	2,977	2,854

Deferred income tax liabilities:

	Group Decelerated tax depreciation	
	2007 *HK$'000*	2006 *HK$'000*
Beginning of the year	(50)	(103)
(Charged)/credited to consolidated income statement	(29)	53
End of the year	(79)	(50)

12 Inventories

As at 31 March 2007 and 31 March 2006, inventories represented finished goods held on hand.

13 Pledged bank deposits

As at 31 March 2007 and 31 March 2006, the Group pledged bank deposits of approximately HK$10,707,000 and HK$52,286,000 respectively in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company.

14 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cash at bank and cash in hand	53,541	27,187
Short-term bank deposits	531,412	538,468
	584,953	565,655

	Company	
	2007	2006
	HK$'000	*HK$'000*
Cash at bank and cash in hand	1,517	5
Short-term bank deposits	71,016	155,207
	72,533	155,212

The carrying amounts of the Group's short-term bank deposit are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Hong Kong dollar	154,636	254,466
United States dollar	375,776	284,002
Reminibi	1,000	–
	531,412	538,468

The carrying amounts of the Company's short-term bank deposit are denominated in Hong Kong dollar.

15 Share capital

(a) Authorised and issued capital

	Number of shares	Approximate amount *HK$'000*
Authorised:		
Upon incorporation on 19 August 2005 *(note (i))*	3,900,000	390
Increase in authorised share capital *(note (ii))*	9,996,100,000	999,610
As at 31 March 2006 and 31 March 2007	10,000,000,000	1,000,000
Issued and fully paid:		
Upon incorporation on 19 August 2005 *(note (i))*	1	–
Allotted and issued on 8 September 2005 *(note (i))*	74	–
Allotted and issued pursuant to the Reorganisation *(note (iii))*	539,999,925	54,000
Issue of shares for Global Offering *(note (iv))*	180,000,000	18,000
As at 31 March 2006	720,000,000	72,000
Issue of shares upon exercise of share options *(note (v))*	3,395,000	340
As at 31 March 2007	723,395,000	72,340

(i) The Company was incorporated on 19 August 2005 with an authorised share capital of HK$390,000 divided into 3,900,000 shares of HK$0.10 each. On 8 September 2005, Mapcal Limited, as initial subscriber, transferred the one issued and outstanding share to SCHC. On 8 September 2005, 50 and 24 fully-paid shares of the Company were allotted and issued to SCHC and SHEC respectively.

(ii) On 20 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.

(iii) 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 Koladen Enterprises Inc. ("KEI") on 24 January 2006 in consideration of allotment and issue of 367,199,949 and 172,799,976 shares to SCHC and SHEC respectively credited as fully paid.

(iv) On 9 February 2006, the Company completed a global offering of 180,000,000 shares with a par value of HK$0.1 each at a price of HK$1 per share and raised HK$180,000,000. All these shares rank pari passu in all respects with the then existing shares. These shares commenced trading on the Stock Exchange on 9 February 2006. The listing proceeds of the aforementioned shares, net of direct listing expenses amounted to approximately HK$161,582,000. The resulting share premium amounted to approximately HK$143,582,000.

15 Share capital (continued)

(a) Authorised and issued capital (continued)

(v) During the year ended 31 March 2007, 3,395,000 ordinary shares of HK$0.10 were issued in respect of the Pre-IPO share option exercised by directors, senior management and other employees under the Pre-IPO Scheme (defined in note 15(b)(i) below) at exercise price of HK$0.60.

(b) Share Option

On 20 January 2006, the Company has established two share option schemes, Pre-IPO Share Option Scheme and Share Option Scheme. Under these two schemes, the Board of Directors (the "Board") may, at their discretion, grant options to Directors and employees of the Group.

(i) Pre-IPO Share Option Scheme

On 24 January 2006, the Company granted options to certain Directors and employees of the Group under the Pre-IPO Share Option Scheme, which entitle them to subscribe for a total of 3,600,000 shares at HK$0.6 per option. The 50% of and another 50% of options are exercisable within a period of five years within which there is a vesting period of half year and one year respectively. Commencing from the six months after 9 February 2006 (the "Listing Date") and twelve months after the Listing Date, the relevant grantee may exercise up to 50% and 100% respectively of the Shares comprised in grantee's option.

Movements in the number of share options are as follows:

	Number of options as at 1 April 2006	Number of options lapsed during the year	Number of options exercised during the year	Number of options as at 31 March 2007
Directors	2,500,000	–	(2,375,000)	125,000
Senior management	480,000	(80,000)	(400,000)	–
Other employees	620,000	–	(620,000)	–
	3,600,000	(80,000)	(3,395,000)	125,000

The fair value of options granted on 24 January 2006 determined using the Black-Scholes valuation model was HK$1,568,000. The significant inputs into the model were share price of HK$1 as at the grant date, exercise price of HK$0.6 per option, standard deviation of expected share price returns of 50%, expected life of options of five years, expected dividend paid-out rate of 12.24% and annual risk-free interest rate of 4.31% and 4.38% for exercise date beginning on 9 August 2006 and 9 February 2007, respectively. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis.

15 Share capital (continued)

(b) Share Option (continued)

(ii) Share Option Scheme

On 23 October 2006, the Board resolved to grant 15,640,000 share options to certain Directors and employees of the Group persuade to the Share Option Scheme, to take up option to subscribe for shares of the Company at an exercise price of HK$1.33 per option and exercisable for a periods of four to nine years commencing from the date of grant. The life of options is ten years.

Movements in the number of share options are as follows:

	Number of options as at 1 April 2006	Number of options granted during the year	Number of options cancelled/ lapsed during the year	Number of options as at 31 March 2007
Directors	–	5,700,000	–	5,700,000
Senior management	–	1,350,000	–	1,350,000
Other employees	–	8,590,000	(580,000)	8,010,000
	–	15,640,000	(580,000)	15,060,000

The fair value of options granted on 23 October 2006 determined using the Black-Scholes valuation model was HK$11,847,300. The significant inputs into the model were share price of HK$1.33 as at the grant date, exercise price of HK$1.33 per option, standard deviation of expected share price returns of 50%, expected life of options of ten years, expected dividend paid-out rate of 10.38% and annual risk-free interest rate of 4.13% for exercise date beginning on 23 October 2010, 2014 and 2015, respectively. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis.

16 Share premium and reserves

	Group				
	Share premium HK$'000	Merger reserve (note a) HK$'000	Retained earnings HK$'000	Share based compensation reserve HK$'000	Total HK$'000
As at 1 April 2005	–	(53,982)	118,717	–	64,735
Issue of shares	162,000	–	–	–	162,000
Share issuance expenses	(18,418)	–	–	–	(18,418)
Employee share option:					
Value of employee services	–	–	–	444	444
Profit for the year	–	–	122,511	–	122,511
Dividends paid *(note 25)*	–	–	(118,000)	–	(118,000)
As at 31 March 2006	143,582	(53,982)	123,228	444	213,272
Representing:					
Premium and reserve					113,912
Proposed dividends					99,360
As at 31 March 2006					213,272
As at 1 April 2006	143,582	(53,982)	123,228	444	213,272
Employee share option:					
Value of employee services	–	–	–	1,860	1,860
Issue of shares upon exercise of share option	3,174	–	–	(1,476)	1,698
Lapse of share option	–	–	54	(54)	–
Profit for the year	–	–	177,418	–	177,418
2006 final dividends paid	–	–	(99,360)	–	(99,360)
2007 interim dividends paid	–	–	(50,523)	–	(50,523)
2007 special dividends paid	–	–	(7,218)	–	(7,218)
As at 31 March 2007	146,756	(53,982)	143,599	774	237,147
Representing:					
Premium and reserve					144,536
Proposed dividends					92,611
As at 31 March 2007					237,147

(a) Pursuant to the Reorganisation effected on 24 January 2006 (note 1), the Company acquired the share capital of Koladen Enterprises Inc. ("KEI") in consideration of allotment and issue of 539,999,925 shares to SCEC and SHEC. Under the merger basis of accounting (note 1), the difference between the nominal value of the shares of subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange amounting to approximately HK$53,982,000 was debited to the merger reserve account.

16 Share premium and reserves (continued)

	Company				
	Share premium *HK$'000*	Contributed surplus (note a) *HK$'000*	Retained earnings *HK$'000*	Share based compensation reserve *HK$'000*	Total *HK$'000*
As at 19 August 2005 (date of incorporation)	–	–	–	–	–
Effect of reorganisation	–	47,076	–	–	47,076
Issue of shares	162,000	–	–	–	162,000
Share issuance expenses	(18,418)	–	–	–	(18,418)
Profit for the year	–	–	225	–	225
Employee share option:					
Value of employee services	–	–	–	444	444
As at 31 March 2006	143,582	47,076	225	444	191,327
Representing:					
Premium and reserve					91,967
Proposed dividends					99,360
As at 31 March 2006					191,327
As at 1 April 2006	143,582	47,076	225	444	191,327
Employee share option:					
Value of employee services	–	–	–	1,860	1,860
Issue of shares upon exercise of share option	3,174	–	–	(1,476)	1,698
Lapse of share option	–	–	54	(54)	–
Profit for the year	–	–	164,376	–	164,376
2006 final dividends paid	–	–	(99,360)	–	(99,360)
2007 interim dividends paid	–	–	(50,523)	–	(50,523)
2007 special dividends paid	–	–	(7,218)	–	(7,218)
As at 31 March 2007	146,756	47,076	7,554	774	202,160
Representing:					
Premium and reserve					109,549
Proposed dividends					92,611
As at 31 March 2007					202,160

(a) Contributed surplus of the Company represented the difference between the costs of investment in subsidiaries acquired pursuant to the Reorganisation over the fair value of the subsidiaries in exchange.

17 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

18 Deferred revenue

An ageing analysis of the deferred revenue is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 year	220,618	279,747
More than 1 year but within 2 years	119,887	159,070
More than 2 years but within 3 years	79,502	87,595
	420,007	526,412

18 Deferred revenue (continued)

Movement of deferred revenue

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

19 Other gains – net

	Group	
	2007 *HK$'000*	2006 *HK$'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

20 Employee benefits expenses (including directors' remuneration)

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Wages and salaries	219,346	176,579
Pension costs – defined contribution plan *(note a)*	9,152	7,216
Other staff welfare	611	2,518
Share based compensation *(note 15)*	1,860	444
	230,969	186,757

20 Employee benefits expenses (including directors' remuneration) (continued)

(a) Pensions – defined contribution plans

There were no forfeited contributions during the year (2006: Nil).

Contributions totaling HK$1,333,000 (2006: HK$1,285,000) were payable to the fund at the year-end.

(b) Directors' and senior management's remuneration

The remuneration of every Director for the year ended 31 March 2007 is set out below:

Name of Director	Fee	Salary	Housing allowance	Other benefits (i)	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Tsang Yue, Joyce	–	8,745	–	251	12	9,008
Lee Soo Ghee	–	8,287	–	266	12	8,565
Yuen Siu Ping	–	1,120	–	289	12	1,421
Hung Fan Kwan	–	980	–	141	12	1,133
Yip Kai Wing	–	629	–	102	12	743
Yu How Yuen	–	120	–	–	6	126
Cheng Kai Tai, Allen	–	120	–	–	6	126
Wong See Hong	–	120	–	–	6	126
	–	20,121	–	1,049	78	21,248

The remuneration of every Director for the year ended 31 March 2006 is set out below:

Name of Director	Fee	Salary	Housing allowance	Other benefits (i)	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Tsang Yue, Joyce	–	7,458	3,600	74	12	11,144
Lee Soo Ghee	–	4,660	–	80	11	4,751
Yuen Siu Ping	–	1,054	–	86	12	1,152
Hung Fan Kwan	–	798	–	37	12	847
Yip Kai Wing	–	425	–	31	12	468
Yu How Yuen	–	20	–	–	1	21
Cheng Kai Tai, Allen	–	20	–	–	1	21
Wong See Hong	–	20	–	–	1	21
	–	14,455	3,600	308	62	18,425

Notes:

(i) Other benefits represented share option.

20 Employee benefits expenses (including directors' remuneration) (continued)

(c) Five highest paid individuals

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

	Number of individuals 2007	2006
Directors	4	4
Employee	1	1
	5	5

The five individuals whose remuneration were the highest in the Group for the year include four (2006: four) Directors whose remuneration are reflected in the analysis presented above. The remuneration of the remaining one (2006: one) individual during the year is as follows:

	2007 *HK$'000*	2006 *HK$'000*
Basic salaries and allowances	1,319	1,247
Retirement benefit cost	12	12
	1,331	1,259

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

	2007	2006
Emolument Bands		
HK$nil – HK$1,000,000	–	–
HK$1,000,001 – HK$1,500,000	1	1
	1	1

During the year, 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.

21 Operating profit

Operating profit is stated after charging the following:

	Group	
	2007 *HK$'000*	2006 *HK$'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 *(note 20)*	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

22 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$'000*	2006 *HK$'000*
Current income tax		
– current year	33,434	23,178
– over provision in prior years	(290)	(887)
	33,144	22,291
Deferred income tax *(note 11)*	(94)	(1,325)
	33,050	20,966

22 Income tax expense (continued)

The tax on the Group's profit before income 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:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Profit before income tax	210,468	143,477
Calculated at a taxation rate of 17.5% (2006: 17.5%)	36,832	25,108
Income not subject to taxation	(5,080)	(4,051)
Expenses not deductible for taxation purposes	942	657
Overprovision in prior years	(290)	(887)
Tax effect of unrecognised tax losses	849	139
Effect of different tax rates in different tax jurisdictions	(203)	–
Income tax expenses	33,050	20,966

23 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.

24 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$164,375,688 (2006: HK$ 225,052).

25 Dividends

	Group	
	2007	2006
	HK$'000	*HK$'000*
Dividends paid to the then shareholders *(note a)*	–	118,000
2007 interim dividend of HK7.0 cents per ordinary share	50,523	–
2007 special dividend of HK1.0 cents per ordinary share	7,218	–
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	–
	150,352	217,360

Notes:

(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.

26 Non-cash transaction to consolidated cash flow statements

During the year ended 31 March 2007, two motor vehicles without net book value were traded in for another motor vehicle at a consideration of HK$2,500,000.

27 Commitments

(a) Commitments under operating leases

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Not later than one year	64,034	37,769
Later than one year and not later than five years	85,160	46,299
Later than five years	–	1,711
	149,194	85,779

27 Commitments (continued)

(b) Other commitments

Other commitments at the balance sheet date are as follows:

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Capital expenditure contracted for but not yet incurred in the financial statements in respect of acquisition of property, plant and equipment	5,999	2,955

28 Contingent liabilities

During the course of business, the Group has received complaints and claims concerned with the provision of beauty services in respect of breach of contract, content of advertisement and personal injuries in relation to the services provided, including claims of unspecified amounts. The directors are of the opinion that such complaints and claim have no material financial impact to the Group.

29 Related party balances and transactions

(a) Related party transactions

The Group had the following material transactions with related parties during the year, which were entered into by the Group in the ordinary course of its business.

The following transactions were carried out with related parties:

		Note	Group 2007 HK$'000	Group 2006 HK$'000
(I)	Sales of products and equipment to a related company:			
	Euro King Limited	*(i)*	–	2,119
	Modern Beauty Salon (South Bridge) Pte Limited	*(i)*	–	8,119
(II)	Lease of properties:			
	Rental income received from related companies:			
	Chain Tech International Limited	*(ii)*	–	24
	All Link International Limited	*(ii)*	–	24
	Senex Investments Limited	*(ii)*	–	23
	United Industries Limited	*(ii)*	–	24
			–	95
	Rental expenses paid to related companies:			
	All Link International Limited	*(iii)*	–	3,600
	United Industries Limited	*(iii)*	–	465
	Senex Investments Limited	*(iii)*	–	144
	Chain Tech International Limited	*(iii)*	432	480
	Luck Elegant Industrial Limited	*(iii)*	901	–
			1,333	4,689
(III)	Franchise income received from related companies:			
	JF Holdings (S) Pte Limited	*(iv)*	400	28

29 Related party balances and transactions (continued)

(a) Related party transactions (continued)

Notes:

(i) 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.

(ii) The amounts represented rental income received for areas leased to the related companies for use as office at a monthly rental mutually agreed by both parties. The related companies are controlled by Tsang Yue, Joyce.

(iii) The amounts represented rental expenses paid for areas leased from the related companies for use as director quarter and shops at a monthly rental mutually agreed by both parties. The related companies are controlled by Tsang Yue, Joyce.

(iv) The amounts represented the franchise income for the grant of trademark to the related company for use at annual franchises income mutually agreed by both parties. The related companies are controlled by Tsang Yue, Joyce.

(b) Balance with related parties

Amounts due from related companies

	Group			
	Balance ended 31 March 2007	Balance ended 31 March 2006	**Maximun outstanding balance for the year as at 31 March 2007**	Maximum outstanding balance for the year as at 31 March 2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
New Consultants Limited	**–**	9	**9**	9
Chain Tech International Limited	**–**	120	**120**	120
JF Holdings (S) Pte Limited	**385**	25	**385**	25
	385	154		

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

(c) Director guarantee

As at 31 March 2007, a director has indemnified certain companies within the Group against any loss resulting from any litigation and claims occurred prior to the Listing Date.

29 Related party balances and transactions (continued)

(d) Key management compensation

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries	19,761	14,395
Housing allowances	–	3,600
Employer's contribution to pension scheme	60	59
Share based payment	1,049	308
	20,870	18,362

Properties held by the Group

Location	Lease term	Use
Workshops Nos. 11-31, 32B, 33B, 41-78 and Store Room No. 10 on 6th Floor and Lorry Car Parking Space Nos. L8, L10, L14 and L15 on Basement Sino Industrial Plaza No. 9 Kai Cheung Road Kowloon Bay Kowloon	Lease period between 10-50 years	Industrial and ancillary office
18th Floor Hou Feng Industrial Building Nos. 1-5 Wing Kin Road Kwai Chung New Territories	Lease period between 10-50 years	Storage
Workshop Nos. 1-3 and a portion of Workshop No. 4 on 4th Floor and Car Parking Space No. G11 on Ground Floor Hong Kong Worsted Mills Industrial Building Nos. 31-39 Wo Tong Tsui Street Kwai Chung New Territories	Lease period between 10-50 years	Storage
Workshop Nos. 4A and 5 on 4th Floor Hong Kong Worsted Mills Industrial Building Nos. 31-39 Wo Tong Tsui Street Kwai Chung New Territories	Lease period between 10-50 years	Rented to an independent third party
Shop 1 on Ground Floor Len Fat Mansion Nos. 56-60, 64-86 Kin Yip Street Yuen Long New Territories	Lease period between 10-50 years	Foot massage
1st Floor (with flat roof adjacent thereto) including the staircases and landings on and leading from the Ground Floor to the First Floor and Covered Air-Conditioned Plant Shelter on 2nd Floor Len Fat Mansion Nos. 56-60, 64-86 Kin Yip Street Yuen Long New Territories	Lease period between 10-50 years	Gym, spa and beauty treatment

Five Years Financial Summary

Following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years prepared on a basis as stated in the note below:

Consolidated results

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	614,064	498,265	456,932	381,656	334,042
Profit before taxation	210,468	143,477	126,743	72,944	46,264
Taxation	(33,050)	(20,966)	(21,572)	(11,453)	(7,269)
Profit for the year attributable to the Company's equity holders	177,418	122,511	105,171	61,491	38,995

Consolidated assets and liabilities

	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total non-current assets	124,149	163,639	122,423	94,288	66,124
Total current assets	661,148	685,818	630,767	508,597	413,031
Total assets	785,297	849,457	753,190	602,885	479,155
Total non-current liabilities	(79)	(50)	(103)	(1,156)	–
Total current liabilities	(475,731)	(564,135)	(634,352)	(578,744)	(517,652)
Total liabilities	(475,810)	(564,185)	(634,455)	(579,900)	(517,652)
Net assets	309,487	285,272	118,735	22,985	(38,497)

Note:

The summary of the consolidated assets and liabilities of the Group as at year end for the five financial years ended 31 March 2006 was prepared as if the current group structure had been in existence throughout these financial years according to the basis of presentation as set out in Note 1 and 2 to the consolidated financial statements.

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