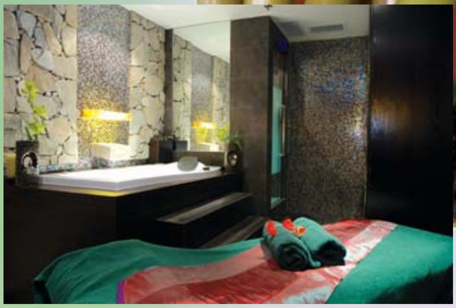
MODERN BEAUTY SALON HOLDINGS LIMITED
現代美容控股有限公司

(HKSE Stock Code 香港聯交所上市編號：919)

Annual Report 2007/08 年報



MODERN BEAUTY SALON

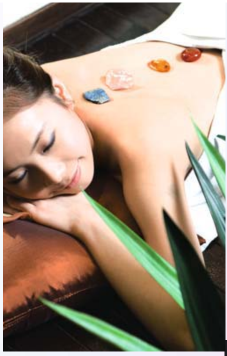
Our Mission

At Modern Beauty, we strive to deliver beauty and wellness 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.

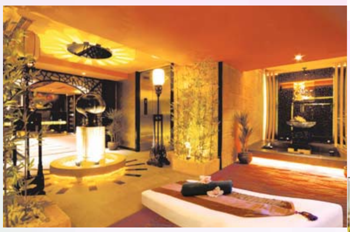
Our Shareholders: We aim to optimise every opportunity to expedite our business development in the China beauty service market with a view to maximise return and create long-term value to our shareholders.

Our Customers: We strive to offer comprehensive beauty and wellness 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.





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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 wellness services to mid- and high-income customer groups who pursue quality living. The Group offers one-stop services ranging from beauty and facial, spa and massage, slimming and fitness to beauty products sales. Modern Beauty adopts a multi-brand strategy to capture different customer segments. The Group has own-label "be" products which are available in the Hong Kong market via self-owned "be Beauty Shop". As at 31 March 2008, the Group had 32 service centres and seven "be Beauty Shop" in Hong Kong.

The Company's goal is to become the best beauty and wellness service provider in China, a market it entered in 2006. As at 31 March 2008, the Group has eight service centres in Mainland China, with three in Beijing, two in Shanghai and three in Guangzhou.

The total weighted average gross floor area covered by the 40 service centres in Hong Kong and Mainland China reached approximately 320,000 square feet, serving 221,000 customers.

The Company aims to expand its service network to cover first and second-tier cities in China and achieve a nationwide coverage in the long run.

Corporate Information

BOARD OF DIRECTORS
Ms. Tsang Yue, Joyce *(Chairperson)*
Mr. Lee Soo Ghee *(Vice Chairperson)*
Ms. Yuen Siu Ping
Mr. Yip Kai Wing
Mr. Kwong Chi Ching
Ms. Mok Hin Yuk
Mr. Cheng Kai Tai, Allen *(Independent Non-executive Director)*
Mr. Yip Ki Chi, Luke *(Independent Non-executive Director)*
Mr. Soo SK Sean *(Independent Non-executive Director)*

AUTHORISED REPRESENTATIVES
Mr. Yip Kai Wing
Mr. Chan Chit Ming, Joeie

COMPANY SECRETARY
Mr. Chan Chit Ming, Joeie

QUALIFIED ACCOUNTANT
Ms. Yeung See Man

MEMBERS OF AUDIT COMMITTEE
Mr. Cheng Kai Tai, Allen *(Chairperson)*
Mr. Yip Ki Chi, Luke
Mr. Soo SK Sean

MEMBERS OF REMUNERATION COMMITTEE
Ms. Tsang Yue, Joyce *(Chairperson)*
Mr. Cheng Kai Tai, Allen
Mr. Yip Ki Chi, Luke
Mr. Soo SK Sean

MEMBERS OF NOMINATION COMMITTEE
Ms. Tsang Yue, Joyce *(Chairperson)*
Mr. Cheng Kai Tai, Allen
Mr. Yip Ki Chi, Luke
Mr. Soo SK Sean

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

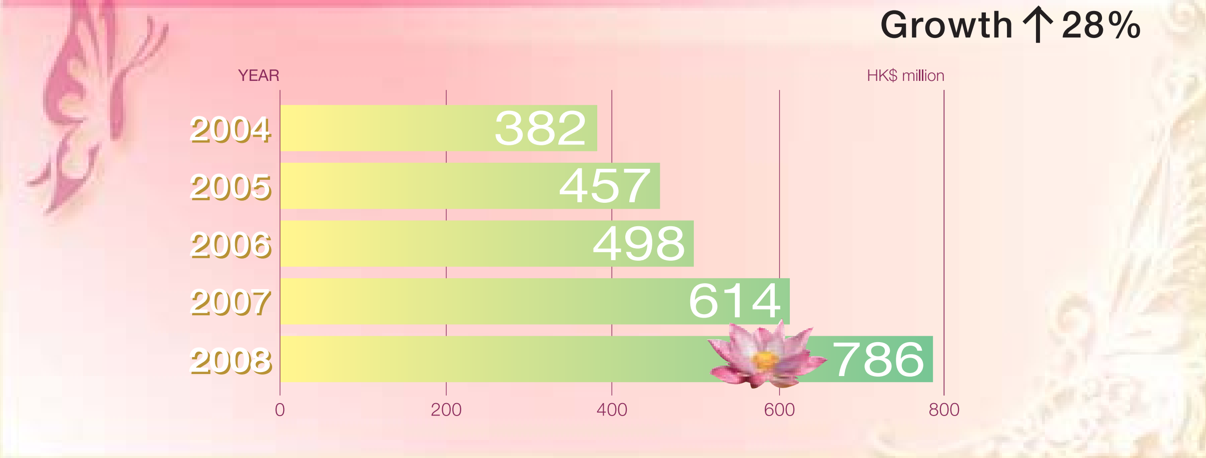
American Express Bank
One Pacific Place
88 Queensway
Hong Kong

WEBSITE
www.modernbeautysalon.com

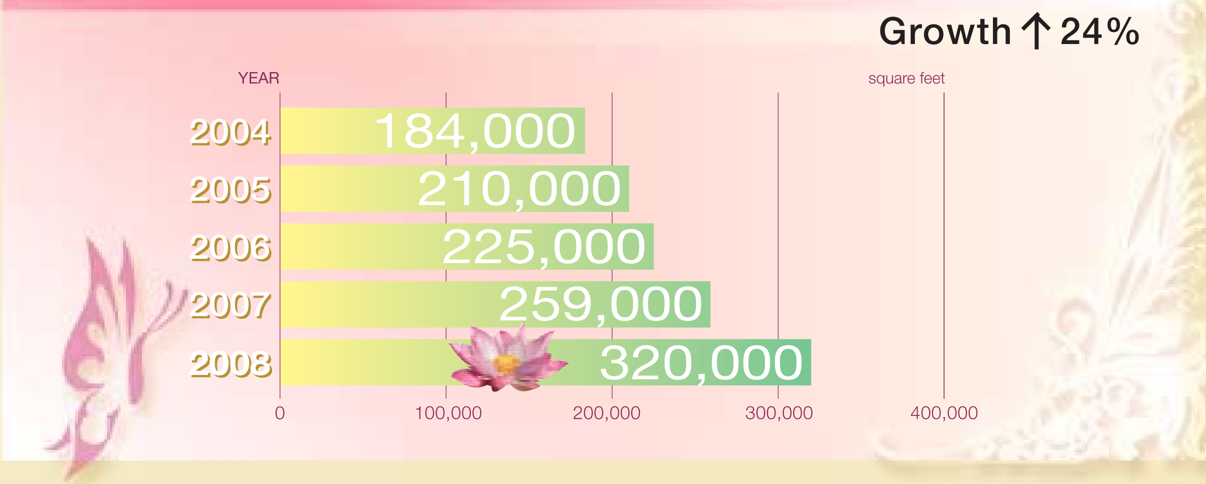
STOCK CODE
919

Financial and Operation Highlights

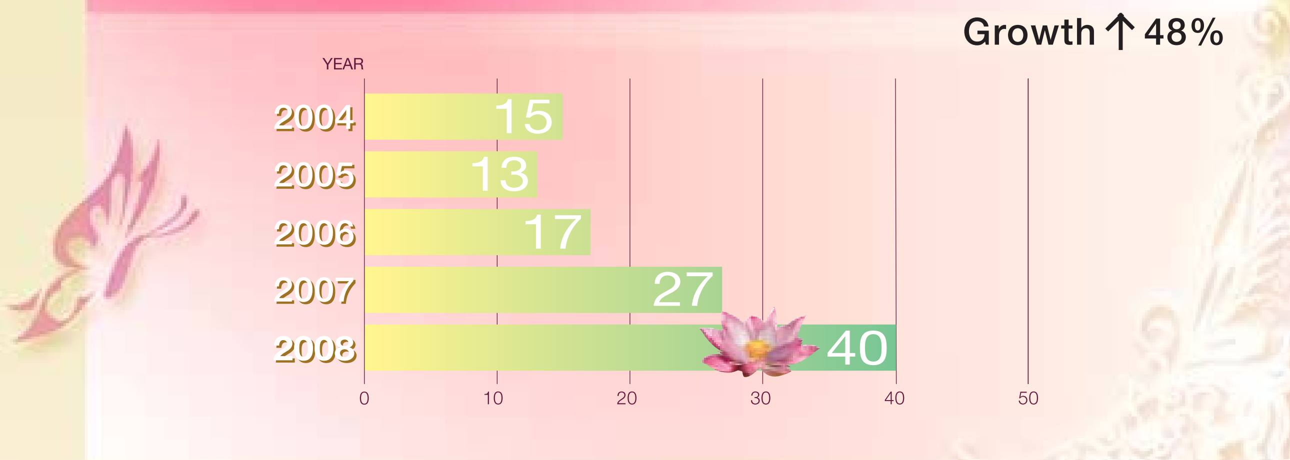
TURNOVER



TOTAL WEIGHTED AVERAGE GROSS FLOOR AREA

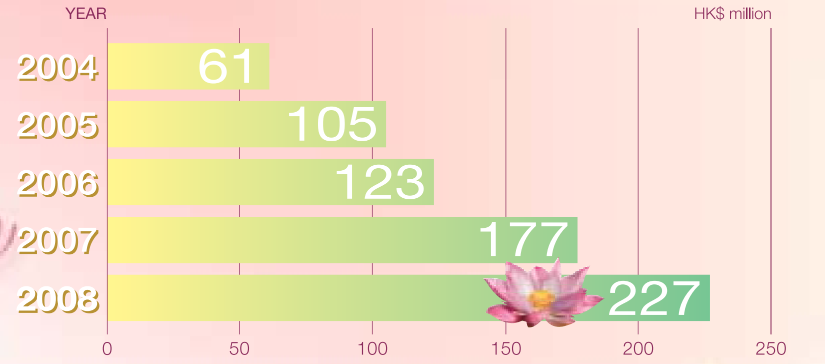


NUMBER OF SERVICE CENTRES



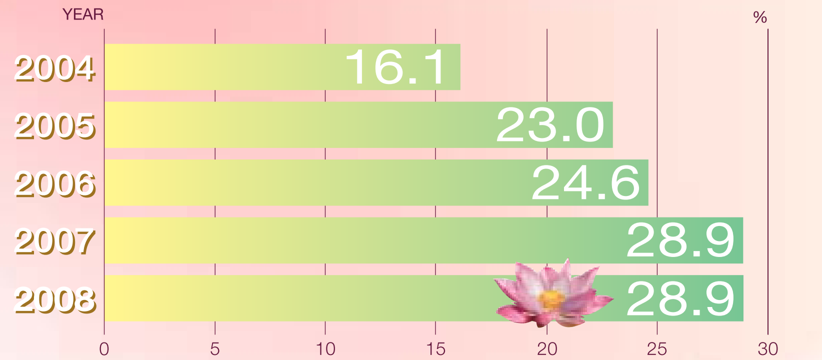
PROFIT FOR THE YEAR

Growth ↑ 28%



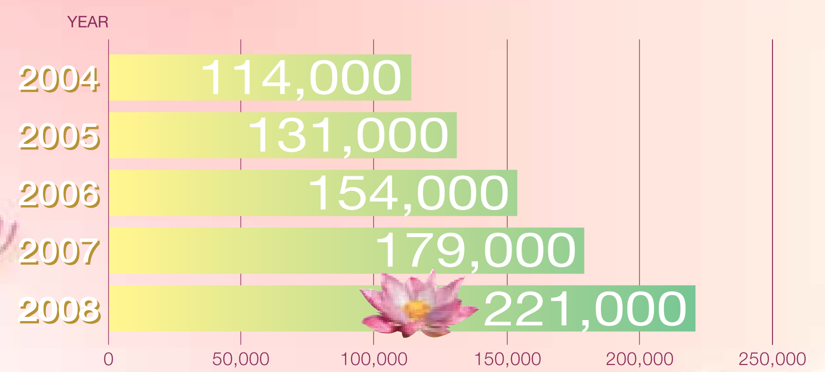
NET PROFIT MARGIN

Remain stable



NUMBER OF CUSTOMERS

Growth ↑ 24%




Be Confident & Refreshing

SLIMMING

Business Profile

The Group offers a comprehensive array of beauty and wellness services which are marketed under different brand names, including beauty and facial services under "**Modern Beauty Salon**", spa and massage services under "**be Sanctuary spa**", "**Yue Spa" and** "**Moment of Serenity**", slimming services under "**Slim Express**", "**Global Slim**" and "**Well Nutrition**", fitness services under "**Modern Fitness**", "**Soo Yoga**" and "**Dance Square**", men salon services under "**HEYMAN**" and "**be homme**", healthcare centre under "**Kin Yue**" and "**Kin Yik**", beauty college under "**Beauty Expert International College**" and distribution of own label "be" products under "**be Beauty Shop**".

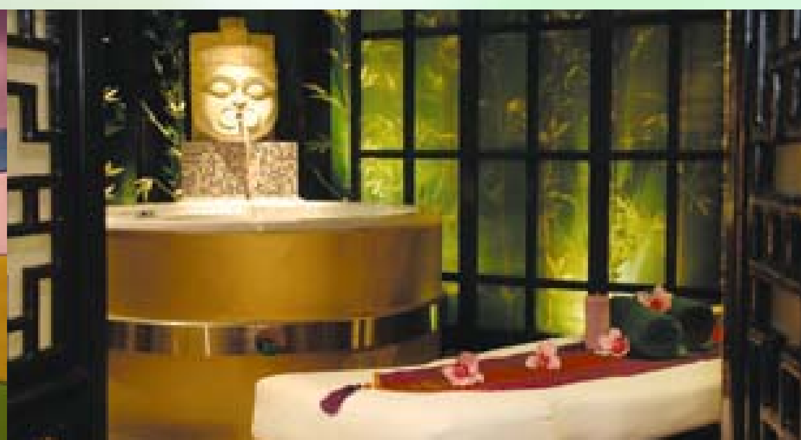
BEAUTY AND FACIAL SERVICES

Provision of an array of facial services including the whitening series, moisturizing series, UV screening series and firming skin series, as well as beauty services including intense pulse light pigment removal, hair reduction, wrinkle elimination and face reshaping.

The treatments, applicable to different facial parts that are classified into six main categories including facial skincare, eye, ear, hand, foot and body, are complemented with a variety of facilities and equipment to provide tailor-made and personalised services to customers.

SPA AND MASSAGE SERVICES

Provision of a broad selection of spa therapies, body scrub treatments and fruit mud treatments according to different skin types and personal preferences with a view to meeting modern women's increasing consciousness towards their



health and own images. Customers can choose and pick their preferred therapies and treatments to create their own combination.

Moreover, different kinds of aroma, foot and specific massage treatments are also offered to customers looking for total relaxation to nurture their bodies and souls.

SLIMMING SERVICES

Provision of a comprehensive range of weight management services including whole and partial body slimming treatments. Our service centres are equipped with advanced healthcare and slimming equipment assisting customers in reviving body figures upon proper guidance from independent professional consultants.

FITNESS SERVICES

Provision of a series of gymnasium, yoga, Thai boxing and aerobic courses. Professional fitness instructors and specialists are stationed at the service centres to provide instructions to customers.

BEAUTY AND SLIMMING SERVICES FOR MEN

Provision of comprehensive skincare and hair treatments, as well as slimming and foot massage treatments specially designed for male customers in a move to meet the demand for healthy and modern lifestyle of this growing segment in a cosmopolitan city.

Business Profile

HEALTHCARE CENTRE

健裕 科技醫療護理中心 KIN YUE BIOMEDICAL TECHNOLOGY WELLNESS CENTRE

健益 醫療科技美容中心 Kin Yik Biomedical Technology Centre

Provision of wide-ranging medical cosmetics services including intense pulse light treatments, Q-Med and Botox with the aid of state-of-the-art technology. All the services the centre offers are performed by registered medical practitioners.

BEAUTY EXPERT INTERNATIONAL COLLEGE

BEAUTY EXPERT 美容專家國際學院 Beauty Expert International College

Provision of professional trainings and comprehensive courses in three levels leading to professional qualifications accredited by well-known trade organisations such as CIBTAC, ITEC and CIDESCO. These courses combine theories with practices, with the latter conducted in individual spa or salon to maximise learning experience and results.

Additionally, general grooming and make-up courses are offered on a regular basis.

BE BEAUTY SHOP

Distribution of a wide variety of beauty and skincare products catering for skin, eye, hand, foot and body under different brand names including our own line "be".

The products are available for sale at our service centres and be Beauty Shops. The shops are located at Sheung Wan, Causeway Bay, To Kwa Wan, Mong Kok, Kwai Chung, Mei Foo, Kwun Tong, Fanling and Tuen Mun.

We also have franchise arrangement for the public to set up "be Beauty Shop".

SERVICE NETWORK COVERAGE

In Hong Kong, we have 32 service centres now cover virtually all prime commercial locations and high-density residential districts.

In Mainland China, we have eight service centres located in Beijing, Shanghai and Guangzhou.

BUSINESS DEVELOPMENT PLAN

For the coming year, we target to have around 38 service centres and 20 "be Beauty Shop" in Hong Kong and extend service network to around 20 in Mainland China.

In June 2008, the Group acquired a 12-storey commercial premise located in Tsim Sha Tsui plan to be developed into a spa villa. The premise will provide one-stop service for spa and beauty treatment. The property has a gross floor area of approximately 13,355 square feet. Cost of investment is around HK$132.8 million.

Key Events and Awards

HONG KONG MARKET

In year 2007/08, the Group opened seven new service centres located in Happy Valley, Causeway Bay, North Point, Sheung Wan, Tsuen Wan, Kwun Tong and Ma On Shan.

We also opened seven "**be Beauty Shop**" outlets in major commercial and residential areas including Causeway Bay, Sheung Wan, Mong Kok, Kwai Chung, Kwun Tong, Fanling and Tuen Mun.

MAINLAND CHINA MARKET

During the year, the Group added seven new service centres in Mainland China: three in Beijing, two in Shanghai and two in Guangzhou.

SOCIAL RESPONSIBILITIES

The Group participated in various charitable and fund-raising activities in Hong Kong and Mainland China.

We helped fund-raising for rebuild Sichuan. A donation of HK$200,000 was made to Artistes 512 Fund Raising Campaign.

RECOGNITION

With our continued profitability and growth over the past three years, the Group was named "**Asia's 200 Best Under a Billion**" company by Forbes Magazine.

We also obtained the "**CAPITAL Best of the Best 2007**" award.

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 and the healthcare categories.

GYM & YOGA

Be Healthy & Energetic

Chairperson's Statement

Tsang Yue, Joyce
Chairperson & Chief Executive Officer

Results

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 2008.

The Company's financial result for the year under review were encouraging. Turnover and net profits for the year reached HK$786.0 million and HK$226.8 million respectively, representing a considerable growth of 28.0% and 27.8%. With the continuous expansion of our service network, launch of a new fitness service line "Soo Yoga", extension of the retail network for our own-label "be" products, and the expansion into a men salon service, our customer base increased from 178,800 in 2007 to 221,000 in 2008, representing a growth rate of 24%. The total weighted average gross floor area grew from 259,000 square feet in 2007 to 320,000 square feet in 2008, an increase of 24%.

Hong Kong Business

The number of our service centres in Hong Kong grew from 26 in 2007 to 32 in 2008, as we set up additional service centres in both commercial and residential areas. Our customer base increased from 178,000 in 2007 to 210,000 in 2008, representing a growth rate of 18%. The total weighted average gross floor area for the 32 service centres is approximately 298,000 square feet. Furthermore, we opened seven "be Beauty Shop" to market and distribute our own-label "be" products.

Revenue generated from the Hong Kong market amounted to HK$772.1 million, representing a sales growth of 25.8%.

Mainland China Business

Our development in Mainland China for the financial year 2007/08 was remarkable. During the year, we opened seven service centres: three in Beijing, two in Shanghai and two in Guangzhou. As at 31 March 2008, the Group had eight service centres in Mainland China. Customer base increased from 800 in 2007 to 11,000 in 2008, up 13 times. The total weighted average gross floor area for the eight service centres is approximately 22,000 square feet.

Revenue generated from Mainland China reached HK$13.9 million, representing 61 times sales growth as compared to last year.

Chairperson's Statement

Outlook and Prospects

For financial year 2008/09, we have set development plans for our Hong Kong and Mainland China markets. We plan to open six service centres in Hong Kong, add 13 "be Beauty Shop" and open 12 service centres in Mainland China. Our capital expenditure budget for the opening of new service centres and shops is set at HK$200 million.

In June 2008, the Group acquired a 12-storey commercial property located in Tsim Sha Tsui, with a gross floor area of approximately 13,355 square feet at an investment cost of HK$132.8 million. The Group plans to develop the premise into a spa villa to provide one-stop service for spa and beauty treatment. This will be another milestone in Modern Beauty's history.

Awards

With our continued profitability and growth over the past three years, the Group was named "Asia's 200 Best Under A Billion" company by Forbes Magazine, a renowned international business publication. We also obtained the "CAPITAL Best of the Best 2007" award. 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 and the healthcare categories.

These honours reflect Modern Beauty's top-of-the-class brand and recognise our commitment in giving professional beauty services as well as our innovative approach and constant dedication in enhancing our service quality.

Appreciation

I would like to thank our dedicated management team and employees for their commitment and valuable contribution to the Group's continuous growth. I would also like to extend my sincere thanks to our customers and shareholders for their continuous support and trust in us. We will work for excellence and would do our best to maximise returns to our stakeholders in the forthcoming years.

Tsang Yue, Joyce
Chairperson & Chief Executive Officer

Hong Kong, 16 July 2008

SKIN CARE

Be Beautiful & Attractive

Management Discussion and Analysis

BUSINESS REVIEW

Launch of New Fitness Service Line "Soo Yoga"

To strengthen the Group's fitness services, the Group launched a new brand "Soo Yoga" to promote various types of yoga exercises, including hot yoga. Other fitness courses introduced include yoga dance, jazz dance, hip hop dance and belly dance. The Group also started offering fitness courses and activities aimed at families, such as family yoga, children ballet dance and children drama courses to attract customers of different age group.

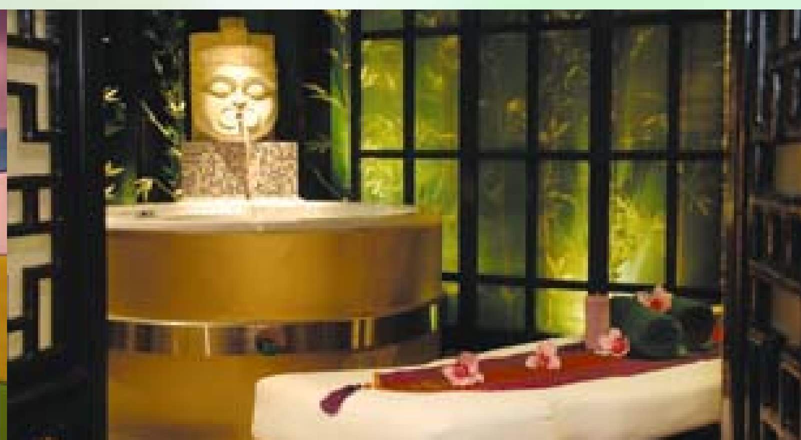
The Group has fitness centres located in Central, Admiralty, Causeway Bay, Mong Kok and Tseung Kwan O. Revenue generated by the fitness business amounted to HK$57.1 million, representing 97% in sales growth as compared to last year.

Extension of Retail Network for "be" Products

To extend the retail network of the Group's own-label products outside its service centres and personal care chain stores, the Group set up its own retail outlets in Hong Kong under the brand "be Beauty Shop". Various types of beauty and skincare products under five series of beauty services are available for sale in the outlets, including Icy White Deluxe Series, Camomile Kiss Series, Collagen Cellular Regenerating Series, Self Blending Serum Concentrate and Problem Skin Series, all catering to different skin types.

We have achieved encouraging response from the market and we have proceeded to open up seven "be Beauty Shop" outlets in major commercial and residential areas including Causeway Bay, Sheung Wan, Mong Kok, Kwai Chung, Kwun Tong, Fanling and Tuen Mun. Products sales reached HK$21.2 million, with sales growth of 16.8%.

The Group has also introduced franchise arrangement for the public to set up "be Beauty Shop".



Expansion of men salon service

The Group also caters to the beauty and fitness needs of men by providing them beauty and slimming products and services under the "HEYMAN" brand. Ten service centres dedicated to offering comprehensive beauty and wellness services and products to men were opened in Central, Admiralty, Causeway Bay, Quarry Bay, Tsim Sha Tsui, Mong Kok, Tseung Kwan O, Yuen Long and Tuen Mun. The number of male customers increased from 7,400 as at 31 March 2007 to 11,300 as at 31 March 2008, representing a growth rate of 53%. Revenue generated from the men salon service segment amounted to HK$27.0 million, representing 616% sales growth as compared with last year.

Continuous Expansion of Hong Kong Service Network

During the year under review, the Group opened seven new service centres located in Happy Valley, Causeway Bay, North Point, Sheung Wan, Tsuen Wan, Kwun Tong and Ma On Shan, bringing the total number of service centres in Hong Kong to 32, with total weighted average gross floor area of approximately 298,000 square feet. Customer base increased from 178,000 as at 31 March 2007 to 210,000 as at 31 March 2008, with customer growth rate at 18%. Around 50% of the customer base are active customers.

Revenue generated from the Hong Kong segment amounted to HK$772.1 million, with sales growth rate at 25.8%.

Business Development in Mainland China

During the year under review, the Group added seven new service centres in Mainland China: three in Beijing, two in Shanghai and two in Guangzhou. The centres offer comprehensive services including beauty and facial treatments, spa and massage, and slimming services targeting mid- to high-income group customers who demand high quality beauty and wellness services. As at 31 March 2008, the number of service centres in Mainland China totaled eight.

The Group's service network in Mainland China covered a total weighted average gross floor area of approximately 22,000 square feet. The number of customers reached 11,000, a 13 times increase in customer base, compared to 800 customers as at 31 March 2007. Revenue generated reached HK$13.9 million, 61 times increase in sales growth as compared to last year.

Management Discussion and Analysis

Operational Highlights

	As at 31 March		
	2008	2007	**Growth**
No. of service centres	**40**	27	**48%**
Hong Kong	**32**	26	**23%**
Mainland China	**8**	1	**700%**
Total weighted average gross floor area (sq. ft.)	**320,000**	259,000	**24%**
Hong Kong	**298,000**	257,000	**16%**
Mainland China	**22,000**	2,000	**1,000%**
No. of customers	**221,000**	178,800	**24%**
Hong Kong	**210,000**	178,000	**18%**
Mainland China	**11,000**	800	**1,275%**
Number of staff	**1,912**	1,265	**51%**
Frontline beauty staff	**1,608**	988	**63%**
Back office staff	**304**	277	**10%**

FINANCIAL REVIEW

Financial Performance

For the financial year ended 31 March 2008, the Group achieved a satisfactory financial performance with strong growth in turnover and profit attributable to shareholders. For the year ended 31 March 2008, the Group recorded a total turnover of HK$786.0 million, representing a significant increase of 28.0% as compared to HK$614.1 million in 2007. The profit for the year amounted to HK$226.8 million (2007: HK$177.4 million), representing a significant growth of 27.8%. Net margin for the year was maintained at 28.9%. The Group's basic earnings per share for the year was HK31.34 cents as compared to HK24.61 cents in 2007.

Key Financial Figures

	As at 31 March		
(HK$ mil)	**2008**	2007	**Change**
Cash and cash equivalents	**349.8**	585.0	**-40.2%**
Capital expenditure	**157.7**	46.9	**+236.2%**
Deferred revenue	**265.0**	420.0	**-36.9%**
Current ratio	**1.34**	1.39	**-3.6%**
Gearing ratio	**n/a**	n/a	**n/a**
Return on assets	**31.8%**	22.6%	**+9.2pt**
Return on equity	**60.5%**	57.3%	**+3.2pt**

Management Discussion and Analysis

Financial Highlights

	2008 HK$'000	2007 HK$'000	Change
Turnover	**786,002**	614,064	**+28.0%**
Employee benefit expenses	**(274,385)**	(230,969)	**+18.8%**
Occupancy costs	**(79,957)**	(52,205)	**+53.2%**
Depreciation and amortisation	**(33,003)**	(26,149)	**+26.2%**
Other operating expenses	**(129,454)**	(106,788)	**+21.2%**
Profit for the year	**226,773**	177,418	**+27.8%**
Dividend per share (HK cents)	**18.80**	20.80	**-9.6%**
Basic earnings per share (HK cents)	**31.34**	24.61	**+27.3%**
Net profit margin	**28.9%**	28.9%	**–**

Turnover

The Group recorded a total turnover of HK$786.0 million for the year ended 31 March 2008, representing a considerable growth of 28.0% as compared to HK$614.1 million in 2007. The increase in turnover of approximately HK$171.9 million was mainly due to the addition of 13 service centres (6 in Hong Kong and 7 in Mainland China) during the year, which increased the total weighted average gross floor area of our service centres from approximately 259,000 square feet in 2007 to 320,000 square feet in 2008. The expansion of our service capacity facilitated more customers' consumption of the Group's services during the year.

Segment Performance

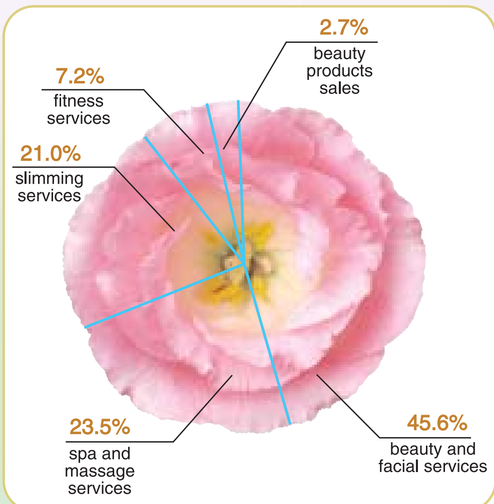
The performance of our major service lines and product sales during the year 2008 is summarised as follows:

Sales Mix	2008 HK$'000	2008 % to turnover	2007 HK$'000	2007 % to turnover	Change
Beauty and facial	**358,516**	**45.6%**	245,539	40.0%	**+46%**
Spa and massage	**184,504**	**23.5%**	159,351	26.0%	**+16%**
Slimming	**164,675**	**21.0%**	161,978	26.3%	**+2%**
Fitness	**57,067**	**7.2%**	29,026	4.7%	**+97%**
Beauty products sales	**21,240**	**2.7%**	18,170	3.0%	**+17%**
Total turnover	**786,002**	**100.0%**	614,064	100.0%	**+28%**

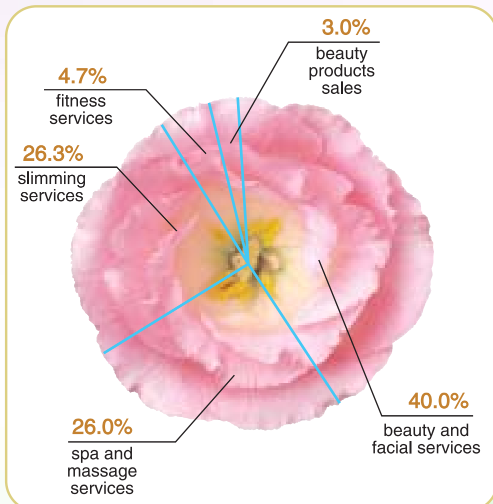
The increase in turnover of approximately HK$171.9 million during 2008 was mainly attributable to the boost in the sales of beauty and facial treatment by HK$113.0 million, increase in the sales of spa and massage by HK$25.1 million and in fitness services by HK$28.0 million, which represent sales growth of 46%, 16% and 97% respectively. Such increase was due to the addition of 13 service centres during the year to enlarge our service network.

With the opening of seven "be Beauty Shop" during the year under review, beauty products sales generated revenue of HK$21.2 million, with 17% sales growth as compared to last year.

Sales mix for 2008



Sales mix for 2007



Management Discussion and Analysis

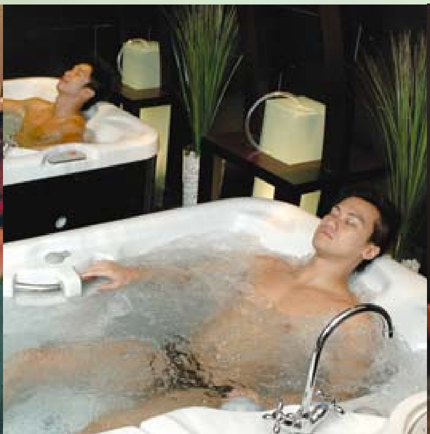
Major Expenses

The Group's major expenses principally included employee benefit expenses, occupancy costs, advertising and promotion expenses, depreciation and amortisation, bank charges and income tax expense. The breakdown is set out as follows:

	2008		2007	
Items	**HK$'000**	**% to turnover**	HK$'000	% to turnover
Employee benefit expenses	**274,385**	**34.9%**	230,969	37.6%
Occupancy costs	**79,957**	**10.2%**	52,205	8.5%
Advertising and promotion expenses	**23,781**	**3.0%**	19,044	3.1%
Depreciation and amortisation	**33,003**	**4.2%**	26,149	4.3%
Bank charges	**28,364**	**3.6%**	22,080	3.6%
Income tax expense	**47,060**	**6.0%**	33,050	5.4%

The Group has maintained tight cost control on major expenses. For year 2008, total expenses for employee benefit expenses, occupancy costs and advertising and promotion expenses were maintained at 48.1% to turnover, a slight improvement from last year's 49.2% to turnover.

With continuous expansion of the Group's business in Hong Kong and Mainland China, more employees were employed. Total headcount increased from 1,265 as at 31 March 2007 to 1,912 as at 31 March 2008 (Hong Kong office: 1,636; Mainland China: 276). Employee benefit expenses increased by 18.8% to HK$274.4 million due to the increase in staff number and payment of discretional bonus. For the year under review, the Group maintained the total employee benefit expenses at a healthy level of 34.9% of total turnover.



For the year under review, occupancy costs increased by HK$27.8 million to HK$80.0 million, with an increment of 53.2%. The increase was mainly due to the expansion of the total Group's service network in Hong Kong and Mainland China. The number of service centres increased to 40 with total weighted average gross floor area of 320,000 square feet as at 31 March 2008, as compared to 27 service centres with 259,000 square feet as at 31 March 2007, representing an expansion of the floor area by 24%. The increase in occupancy costs was also caused by rental increment in renewal of tenancies.

Net Profit and Margin

Net profit for the year increased by 27.8% to HK$226.8 million for the year ended 31 March 2008 as compared to HK$177.4 million for last year. Net profit margin was maintained at 28.9%. Excluding the Mainland China business, the Group achieved a net profit of HK$234.4 million with a net profit margin of 30.4%, representing a year-on-year growth in net profit of 31.3%. Basic earnings per share was HK31.34 cents as compared to HK24.61 cents for last year.

Dividend Per Share

The Board recommended a final dividend of HK8.8 cents per share to be payable to the shareholders of the Company. Together with the interim dividend of HK10.0 cents paid during the year, the total dividend for the year ended 31 March 2008 will be HK18.8 cents per share. This indicates a 60% 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 2008, the Company plans to pay the final dividend of HK8.8 cents per share on 3 September 2008 to the shareholders whose names appear on the Register of Members of the Company on 22 August 2008.

Liquidity and Financial Position

The total equity of the Company as at 31 March 2008 was HK$374.7 million (2007: HK$309.5 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$349.8 million as at 31 March 2008 (2007: HK$585.0 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 in line with the Group's prudent treasury policy. As at 31 March 2008, the Group had net current assets of approximately HK$115.2 million (2007: HK$185.4 million).

Management Discussion and Analysis

Capital Expenditure

The total capital expenditure incurred by the Group during the year ended 31 March 2008 amounted to HK$157.7 million, which was mainly used in the purchase of land and building, 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 the deferred revenue for the year ended 31 March 2008 is summarised as follows:

	2008 HK$'000	2007 HK$'000	**Change**
Beginning of the year	**420,007**	526,412	**-20.2%**
Exchange differences	**(728)**	—	**N/A**
Receipts during the year	**610,511**	489,489	**+24.7%**
Sales of beauty and wellness services	**(733,296)**	(560,588)	**+30.8%**
Sales upon expiring prepaid beauty packages	**(31,466)**	(35,306)	**-10.9%**
End of the year	**265,028**	420,007	**-36.9%**

With the expansion of the Group's network coverage and greater effort in promotion, the receipts from sales of new prepaid beauty packages for the year increased by 24.7% to HK$610.5 million as compared to HK$489.5 million in 2007. 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 2008 to have decreased to HK$265.0 million as compared to the balance of HK$420.0 million as at 31 March 2007.

Contingent Liabilities and Capital Commitment

The Board considered no material contingent liabilities as at 31 March 2008. The Group had capital commitment of approximately HK$8.3 million as at 31 March 2008 (2007: HK$6.0 million) in respect of the acquisition of property, plant and equipment.

Charges on Assets

As at 31 March 2008, the Group had pledged bank deposits of HK$9.3 million (2007: HK$10.7 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign Exchange Risk Exposure

The Group's transactions and receivables are mainly denominated in Hong Kong dollars and are not exposed to significant foreign exchange risk. Net assets of key foreign subsidiaries in Mainland China denominated in Renminbi are exposed to foreign currency translation risk. The Group periodically reviews liquid assets and liabilities held in currencies other than the Hong Kong dollars to ensure that net exposure is kept at an acceptable level.

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.

Human Resources

As at 31 March 2008, the Group had a total work force of 1,912 employees (31 March 2007: 1,265 employees), including 1,608 frontline beauty employees who were located at the Group's 40 service centres and 304 back-office employees who were based in office. Of which, 1,636 employees were employed in Hong Kong while 276 employees worked in Mainland China. The total employee benefit expenses, including directors' emoluments for the year under review, amounted to HK$274.4 million as compared to HK$231.0 million in 2007.

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.

Management Discussion and Analysis

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 2008, the usage of proceeds were in accordance with the future plans and prospects set out in the Company's prospectus dated 27 January 2006 and within the limit of the net proceed.

PROSPECTS

At Modern Beauty, we strive to do our best to meet the increasing demands of our customers.

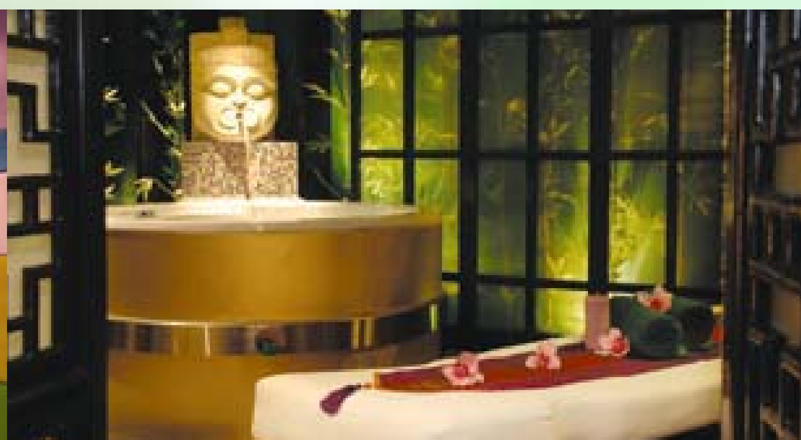
Introduction of "Spa Villa" concept in Hong Kong

In June 2008, the Group acquired a 12-storey commercial property located in Tsim Sha Tsui. Management plans to develop the premise into a spa villa to provide one-stop service for spa and beauty treatment. Cost of investment in the property is around HK$132.8 million. The property has a gross floor area of approximately 13,355 square feet.

The Group currently operates two beauty and wellness service centres in Tsim Sha Tsui, which are two of the major servicing locations of the Group's operations in Hong Kong. The Group acquired the property in order to secure the business strategy of operating a service network in Tsim Sha Tsui. Furthermore, acquiring the property would enable the Group to achieve considerable rental savings and is believed to be for the long-term benefit of the Group.

Continuous Expansion of Service Network in Hong Kong

The Group has set a development plan for the Hong Kong market to open six service centres during the financial year 2008/09. Management objective is to increase the number of service network in Hong Kong to around 38 service centres as at 31 March 2009. With the expansion of network coverage towards major shopping malls and highly populated residential areas, the Group's client base will be broadened. This will help boost customers' prepayments and consumption of our services. The Group will continue to search for opportunities to increase our service network.



Promotion of own-label "be" Products

Currently our own-label "be" products are under OEM arrangement produced by an Australian company. We intend to improve cooperation with the OEM producer to increase production volume. For the financial year 2008/09, the Group plans to open 13 "be Beauty Shop" to enlarge the network served. The Group plans to increase the number of "be Beauty Shop" to around 20 as at 31 March 2009. Products sales are expected to increase to approximately 5% of total group sales.

Expand service network in Mainland China

At present, the Group has eight service centres in Mainland China: three in Beijing, two in Shanghai and three in Guangzhou. The Group's mission is to become the best beauty and wellness market provider in China. We would leverage on our rich experience in the beauty and wellness industry in Hong Kong to establish a truly national footprint with strong presence in the first- and second-tier cities in China in the long run. For the financial year 2008/09, the Group intends to open 12 service centres in Mainland China. According to our development plan, number of service network in Mainland China will be increased to around 20 as at 31 March 2009. Setting our feet on Shanghai in the first place, more service centres are expected to become operational in Beijing, Shanghai, Guangzhou, Shenzhen and other cities.

2009 Capital Expenditure Plan

For 2008/09 development plan, the Group has set a capital expenditure budget of HK$200 million for service centres and shops opening.

With the above development plans and a service enhancement program in place, we are confident of reinforcing a sense of loyalty throughout our customer base that continues to grow, and we grow with our customers.

Investor Relations and Financial Calendar

The Group has placed great effort in enhancing corporate transparency and maintaining continued communications with both the investment community and media since our public listing in February 2006. Our efforts in communicating to the investment community the Group's business strategies and operations regularly and timely have gained us the "**Best Investor Relations for an IPO in the Hong Kong Market**" recognition in 2006 by the prestigious IR Magazine, a globally recognised investor relations magazine.

Communication with Investment Community

The Group adopts a proactive approach to investor relations. During the year 2007/08, 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. Apart from attending investor relations activities and organising site visits to our service centres in Hong Kong, we have also arranged roadshows to meet institutional investors.

Access to Corporate Information

We have maintained 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, result presentation material, roadshow presentation material, statutory announcements and press releases in English and Chinese are timely uploaded to our website. We have also utilised various channels to communicate with the investment community and answer their questions through one-on-one meetings, small group meetings, luncheon presentations, telephone conferences, media conferences and email communication.

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

2007 Final and Special Dividends	HK12.8 cents
2008 Interim Dividend	HK10.0 cents
2008 Final Dividend	HK8.8 cents

Financial Calendar 2008

Announcement of 2008 interim results	13 December 2007
Announcement of 2008 final results	16 July 2008
Last day to register for 2008 final dividend	19 August 2008
Closure of Register of Members	20 to 22 August 2008 (both dates inclusive)
2008 Annual General Meeting	22 August 2008
Payment of 2008 final dividend	3 September 2008
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 2008:	723,520,000 shares
Board lot:	4,000 shares
Nominal value:	HK$0.1 per share
Market Capitalisation as at 31 March 2008:	HK$1,917 million (based on the closing price as at 31 March 2008, being the last trading date of the year, of HK$2.65)

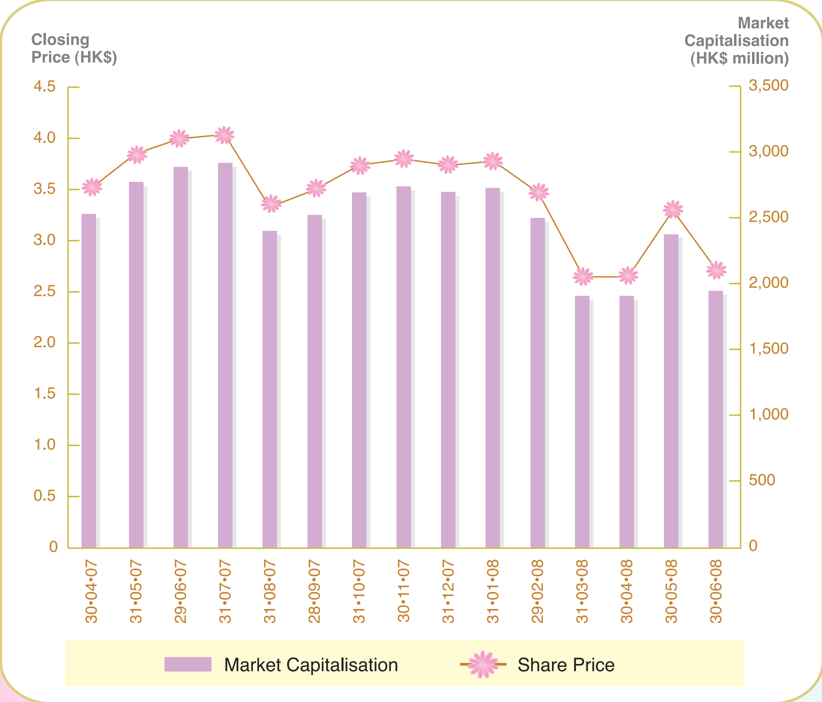
Stock Codes

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



Investor Relations and Financial Calendar

Share price performance



Annual Report 2008

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. Tisa Fan
Finance Controller
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
Fax: (852) 2757 3453

Website

www.modernbeautysalon.com

Board of Directors and Senior Management

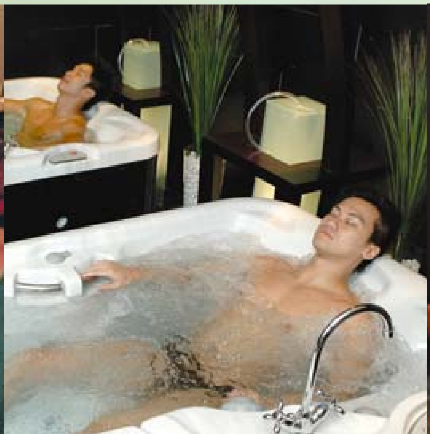
Executive Directors

Ms. Tsang Yue, Joyce

Aged 47, 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 wellness industry who has profound industry understanding and distinctive knowhow to originate and capitalise 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, and the mother of Mr. Kwong Chi Ching, an executive director of the Group.

Mr. Lee Soo Ghee

Aged 33, 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 optimise 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 of the Group.



Ms. Yuen Siu Ping

Aged 33, 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 15 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. Yip Kai Wing

Aged 34, is the Chief Technology Officer and an executive director of the Group. Mr. Yip is responsible for all computer and information system matters of the Group. Mr. Yip brings with him about eight 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.

Mr. Kwong Chi Ching

Aged 23, is an executive director and senior assistant to Chairperson of the Group. Mr. Kwong assists to in charge of the day-to-day all round management and operation of the Group. He is also a director of Beijing Modern Beauty Salon Company Limited, an indirect wholly owned subsidiary of the Company in Beijing, People's Republic of China. He joined the Group as Management Trainee in April 2000 and has extensive experience in the beauty and wellness services industry. He is the son of Ms. Tsang, the Chairperson and Chief Executive Officer of the Group.

Ms. Mok Hin Yuk

Aged 45, is an executive director and assistant to Chairperson of the Group. Ms. Mok is in charge of the day-to-day management and operation of the purchasing department of the Group. She is a director and legal representative of Guangzhou Be Beauty Salon and Fitness Company Limited, an indirect wholly owned subsidiary of the Company in Guangzhou, People's Republic of China and the legal representative of Shanghai Be Beauty Salon and Fitness Company Limited, an indirect wholly owned subsidiary of the Company in Shanghai, People's Republic of China. She joined the Group in April 2006. Before joining the Group, she has served in merchandising and sales service industries.

Board of Directors and Senior Management

Independent Non-executive Directors

Mr. Cheng Kai Tai, Allen

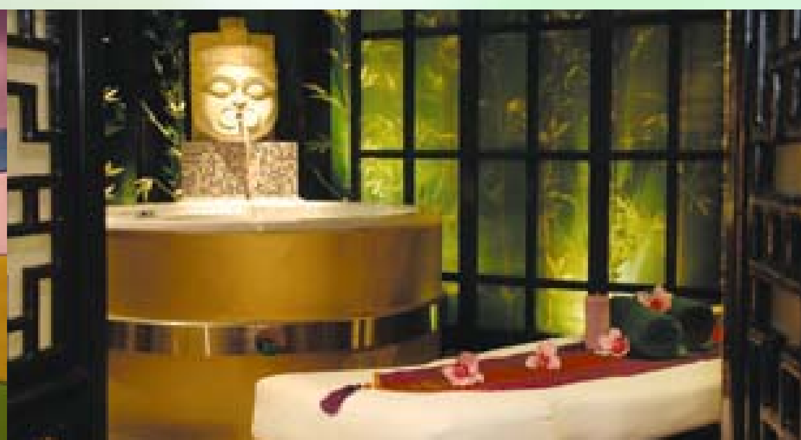
Aged 44, was appointed as an independent non-executive director in February 2006. Mr. Cheng graduated from Jinan University in the People's Republic of China with a Master Degree of Management in January 2004. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public 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.

Mr. Yip Ki Chi Luke

Aged 42, was appointed as an independent non-executive director in April 2008. Mr. Yip is a solicitor of the High Court of the Hong Kong Special Administrative Region. He holds a bachelor's degree of laws (LL.B.) from the University of London. Mr. Yip is a partner of Messrs. Cheung & Yip, Solicitors & Notaries. He has extensive experiences in the legal area in Hong Kong and he is currently a solicitor and notary public practicing in Hong Kong.

Mr. Soo SK Sean

Aged 36, was appointed as an independent non-executive director in April 2008. Mr. Soo holds a master degree of Business Administration in Financial Management from the University of Hull in England. He is a CFA charterholder of the CFA Institute. He is also a member of Hong Kong Society of Financial Analyst and an affiliate member of Market Technicians Association. Mr. Soo is the Chief Executive Officer of Jefferson V Sakk Asset Management Limited. He has been engaged in the financial business with over ten years of relevant experience. Mr. Soo previously held various senior positions in Sun Hung Kai Financial Group.



Senior Management

Mr. Ma Nam Shing

Aged 44, is the Chief Financial Officer of the Group. Mr. Ma is responsible for overall corporate finance, investment, accounting, taxation, internal controls, risk management and strategic planning. Mr. Ma graduated from Curtin University of Technology, Australia with Bachelor degree of Business and then further obtained a Postgraduate Diploma in Corporate Administration from the Hong Kong Polytechnic University. He is a CPA member of the Hong Kong Institute of Certified Public Accountants and CPA Australia, and a fellow of IT Accountants Association. He has about 18 years experience in audit, commercial and business advisory from Grant Thornton Byrne, and various local CPA firms and private companies in Hong Kong. Mr. Ma joined the Group in September 2007 and promoted to current position in March 2008.

Ms. Fan Mang Yee, Tisa

Aged 46, is the Finance Controller of the Group. Ms. Fan is responsible for investor relation, investment, business development, taxation and internal audit. Ms. Fan graduated from Brunel University, England with a Master Degree in Business Administration and is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. She is also an International Associate of American Institute of Certified Public Accountants and a Certified Internal Control Specialist obtained from the Internal Control Institute, USA. Ms. Fan has four years audit experience with PriceWaterhouse (currently known as PricewaterhouseCoopers) and over 20 years experience in finance and internal audit from various listed groups and private companies in Hong Kong. Ms. Fan joined the Group in April 2008.

Mr. Tung Kwok Lui

Aged 35, is the legal consultant of the Group. Mr. Tung is responsible for providing legal advice and support to the Group's business and commercial activities. Mr. Tung graduated from San Francisco State University with a Bachelor Degree of Science in Business Administration (Accounting, Finance, Banking and Real Estate) in 1994 and Southwestern University School of Law with Juris Doctor in 1996. Admitted as an attorney and counselor at law of Supreme Court of the State of California (U.S.A.), a Certified Public Accountant in the North Dakota State Board of Accountancy (U.S.A.) and a solicitor of the High Court of Hong Kong respectively, he has over 10 years of legal experience. Mr. Tung joined the Group in June 2006.

Board of Directors and Senior Management

Mr. Wong Shu Pui

Aged 41, joined the Group in April 2008 as Legal Consultant and is responsible for providing legal advice and support to the Group's business, commercial and litigation activities as well as company secretarial matters. Mr. Wong is a solicitor admitted in Hong Kong.

Ms. Ip Lai Fong

Aged 36, 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. Ms. Ip graduated from Lingnan University and The Hong Kong Management Association in 2007 with Diploma in Business Management. 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.

Mr. Chan Chit Ming, Joeie

Aged 35, is the Finance Manager – Treasury Management and Company Secretary of the Group. Mr. Chan oversees the daily treasury and accounting operations of the Group, and all company secretarial matters. 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 an associate of the Institute of Chartered Accountants in England and Wales, a fellow 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 34, 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. She is an associate of The Institute of Chartered Accountants in England and Wales, 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 specialising 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 2008.

Corporate Governance Practice

The Board is in the opinion that the Company has complied with the Code for the year ended 31 March 2008, except for the following deviations:

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

Board of Directors

For the year ended 31 March 2008, the Board consisted of six 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 at least 14 days in advance of regular 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 2008 (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 nine full board meetings.

The members of the Board for the year ended 31 March 2008 and the attendance of each member for the aforesaid meetings are as follows:

	Number of attendance
Executive Directors	
Ms. Tsang Yue, Joyce	9/9
Mr. Lee Soo Ghee	7/9
Ms. Yuen Siu Ping	8/9
Mr. Hung Fan Kwan (resigned on 30 October 2007)	4/5
Mr. Yip Kai Wing	7/9
Mr. Kwong Chi Ching (appointed on 14 September 2007)	4/4
Ms. Mok Hin Yuk (appointed on 14 September 2007)	4/4
Independent Non-executive Directors	
Mr. Wong See Hong	6/9
Mr. Yu How Yuen	9/9
Mr. Cheng Kai Tai, Allen	8/9

Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean were appointed as Independent Non-executive Directors and members of the Audit Committee, Remuneration Committee and Nomination Committee on 24 April 2008, and Mr. Wong See Hong resigned as Independent Non-executive Director and member of the Audit Committee, Remuneration Committee and Nomination Committee on 9 May 2008 and Mr. Yu How Yuen resigned as Independent Non-executive Director and member of the Audit Committee, Remuneration Committee and Nomination Committee on 30 May 2008.

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 each of the Independent Non-executive Directors 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 Mr. Lee Soo Ghee, the Vice Chairperson of the Company, is the husband of Ms. Tsang Yue, Joyce, the Chairperson of the Company, and Mr. Kwong Chi Ching is the son of Ms. Tsang Yue, Joyce.

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) elected at the annual general meeting 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 re-election. 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; there is no service contract between the Company and Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean in respect of their appointment of Independent Non-executive Directors and they offer to stand for re-election at the forthcoming annual general meeting of the Company.

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. For the year ended 31 March 2008, the Remuneration Committee comprised 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. Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean were appointed as members of the Remuneration Committee on 24 April 2008, and Mr. Wong See Hong and Mr. Yu How Yuen resigned as members of the Remuneration Committee on 9 May 2008 and 30 May 2008, respectively. 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 one meeting during the year ended 31 March 2008, which was attended by three 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. For the year ended 31 March 2008, the Nomination Committee comprised 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. Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean were appointed as members of the Nomination Committee on 24 April 2008, and Mr. Wong See Hong and Mr. Yu How Yuen resigned as members of the Nomination Committee on 9 May 2008 and 30 May 2008, respectively. 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 2008, which was attended by all members.

Auditors' Remuneration

During the year ended 31 March 2008, 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 2008	2,474

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. For the year ended 31 March 2008, the Audit Committee comprised three Independent Non-executive Directors, namely Mr. Wong See Hong, Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen. Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean were appointed as members of the Audit Committee on 24 April 2008, and Mr. Wong See Hong and Mr. Yu How Yuen resigned as members of the Audit Committee on 9 May 2008 and 30 May 2008, respectively. Mr. Yu How Yuen was the Chairman of the Audit Committee until his resignation on 30 May 2008. Mr. Cheng Kai Tai, Allen, is the Chairman of the Audit Committee since 30 May 2008.

The Audit Committee shall meet at least twice a year. The Audit Committee has held seven meetings during the year ended 31 March 2008 and the attendance of each member for the aforesaid meetings are as follows:

	Number of attendance
Independent Non-executive Directors	
Mr. Wong See Hong	6/7
Mr. Yu How Yuen	7/7
Mr. Cheng Kai Tai, Allen	6/7

All members of the Audit Committee possess in-depth experience in their own profession. Mr. Yu How Yuen and Mr. Cheng Kai Tai, Allen, possess 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 2008, 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 2007 and any areas of concerns during the audit respectively, without the presence of the management of the Company. The Audit Committee held another meeting with PricewaterhouseCoopers on 11 December 2007 to discuss the unaudited condensed financial statements of the Company for the six months ended 30 September 2007. The Audit Committee also held meeting with PricewaterhouseCoopers, to discuss the audit plan of the Group for the year ended 31 March 2008, without the presence of the management of the Company.

The final results of the Group for the year ended 31 March 2008 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 2008, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the year ended 31 March 2008 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 2008.

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.

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 authorised 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 authorised 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 authorised 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 2008.

Principal Activities and Segment Analysis of Operations

As at 31 March 2008, the principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are provision of beauty and wellness services and sales of beauty products. Particulars of the Company's subsidiaries are set out in Note 15 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 HK8.8 cents per Share amounting to approximately HK$63.7 million to Shareholders whose names appear on the register of Shareholders of the Company on 22 August 2008. During the year, the Directors have declared an interim dividend of HK10 cents, amounting to approximately HK$72.4 million to the Shareholders.

Reserves

Details of movements in reserves of the Group and the Company during the year are set out in Note 24 to the consolidated financial statements.

Distributable Reserves of the Company

Under the Companies Law (2007 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 2008, the Company's reserves available for distribution to Shareholders amounted in total to approximately HK$203 million (2007: HK$202 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 124.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

Share Capital

Details of movements of the Company's share capital during the year are set out in Note 23 to the consolidated financial statements.

Report of the Directors

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$400,000 (2007: 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 (resigned on 30 October 2007)
Mr. Yip Kai Wing
Mr. Kwong Chi Ching (appointed on 14 September 2007)
Ms. Mok Hin Yuk (appointed on 14 September 2007)

Independent Non-executive Directors:

Mr. Wong See Hong (resigned on 9 May 2008)
Mr. Yu How Yuen (resigned on 30 May 2008)
Mr. Cheng Kai Tai, Allen
Mr. Yip Ki Chi, Luke (appointed on 24 April 2008)
Mr. Soo SK Sean (appointed on 24 April 2008)

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.

One executive Director, Mr. Yip Kai Wing, and one independent non-executive Director, Mr. Cheng Kai Tai, Allen will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election at that meeting.

Executive Directors, Mr. Kwong Chi Ching and Ms. Mok Hin Yuk and independent non-executive Directors, Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean shall hold office until the forthcoming annual general meeting of the Company, and shall be eligible for re-election at that meeting.

Directors' Service Contracts

Each of Ms. Tsang Yue, Joyce, Mr. Lee Soo Ghee, Ms. Yuen Siu Ping 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 and Mr. Yip Kai Wing, not less than one month's notice in writing served by either party on the other; there is no service contract between the Company and Mr. Kwong Chi Ching and Ms. Mok Hin Yuk in respect of their appointment of executive Director; whereas 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; and there is no service contract between the Company and Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean in respect of their appointment of independent non-executive Director.

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 30 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 wellness 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 wellness services and sale of beauty products in Hong Kong. Ms. Tsang Yue, Joyce resigned as the sole director of JF (Singapore) Group on 19 September 2007. However, she is deemed to be 100% interested in JF (Singapore) Group as at 31 March 2008. 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 do 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 (v) sales of beauty products, 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 2008, 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 Share Option Scheme *(Note 1)*	Total number of Shares	Approximate percentage of issued Shares *(Note 2)*
Ms. Tsang Yue, Joyce	Interests of controlled corporations	468,000,000 *(Note 3)*	–	468,000,000	64.68%
	Beneficial owner	5,908,000	1,350,000 *(Note 4)*	7,258,000	1.00%
	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	473,908,000 *(Note 5)*	1,350,000 *(Note 4)*	475,258,000	65.69%
Ms. Yuen Siu Ping	Beneficial owner	400,000	1,500,000	1,900,000	0.26%
Mr. Yip Kai Wing	Beneficial owner	185,000	500,000	685,000	0.09%
Mr. Kwong Chi Ching	Beneficial owner	–	200,000	200,000	0.03%

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 2008, ie. 723,520,000 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 2008, 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 paragraph 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 2008, 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**	**Name of Shares**	**Approximate percentage of issued Shares** *(Note 1)*
Silver Compass Holdings Corp.	Beneficial owner	367,200,000 *(Note 2)*	50.75%
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 2008, ie. 723,520,000 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 2008, 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.

On 23 October 2006, 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 optimise 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 2007	No. of shares acquired on exercise of options	No. of options as at 31 March 2008	Date of grant	Period during which options are exercisable	Exercise price per share
Directors						
Mr. Yip Kai Wing	125,000	(125,000)	–	24 January 2006	9 February 2007 to 8 February 2011	HK$0.60

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 23 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.

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

Grantee	No. of options as at 1 April 2007	Reclassification	No. of options cancelled/ lapsed during the year	No. of options as at 31 March 2008	Date of grant	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued shares *(Note)*
Directors								
Ms. Tsang Yue, Joyce	337,500	–	–	337,500	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	0.05%
Ms. Tsang Yue, Joyce	472,500	–	–	472,500	23October 2006	23 October 2014 to 22 October 2016	HK$1.33	0.07%
Ms. Tsang Yue, Joyce	540,000	–	–	540,000	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	0.07%
Mr. Lee Soo Ghee	337,500	–	–	337,500	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	0.05%
Mr. Lee Soo Ghee	472,500	–	–	472,500	23 October 2006	23 October 2014 to 22 October 2016	HK$1.33	0.07%
Mr. Lee Soo Ghee	540,000	–	–	540,000	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	0.07%
Ms. Yuen Siu Ping	375,000	–	–	375,000	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	0.05%
Ms. Yuen Siu Ping	525,000	–	–	525,000	23 October 2006	23 October 2014 to 22 October 2016	HK$1.33	0.07%
Ms. Yuen Siu Ping	600,000	–	–	600,000	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	0.08%
Mr. Hung Fan Kwan *	250,000	–	(250,000)	–	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	N/A
Mr. Hung Fan Kwan *	350,000	–	(350,000)	–	23 October 2006	23 October 2014 to 22 October 2016	HK$1.33	N/A
Mr. Hung Fan Kwan *	400,000	–	(400,000)	–	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	N/A
Mr. Yip Kai Wing	125,000	–	–	125,000	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	0.02%
Mr. Yip Kai Wing	175,000	–	–	175,000	23 October 2006	23 October 2014 to 22 October 2016	HK$1.33	0.02%
Mr. Yip Kai Wing	200,000	–	–	200,000	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	0.03%

Grantee	No. of options as at 1 April 2007	Reclassification	No. of options cancelled/ lapsed during the year	No. of options as at 31 March 2008	Date of grant	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued shares (Note)
Directors								
Mr. Kwong Chi Ching	–	50,000	–	50,000	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	0.01%
Mr. Kwong Chi Ching	–	70,000	–	70,000	23 October 2006	23 October 2014 to 22 October 2016	HK$1.33	0.01%
Mr. Kwong Chi Ching	–	80,000	–	80,000	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	0.01%
Employees	2,340,000	(50,000)	(215,000)	2,075,000	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	0.29%
Employees	3,276,000	(70,000)	(301,000)	2,905,000	23 October 2006	23 October 2014 to 22 October 2016	HK$1.33	0.40%
Employees	3,744,000	(80,000)	(344,000)	3,320,000	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	0.46%
Total	**15,060,000**	**–**	**(1,860,000)**	**13,200,000**				

* *resigned on 30 October 2007*

Note: The relevant percentages are calculated by reference to the shares in issue on 31 March 2008, i.e. 723,520,000 shares.

Information on the accounting policy for options granted under the Share Option Scheme and the fair value of the options is provided in Note 23 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 2008, purchases from the Group's five largest suppliers accounted for 30% (2007: 46%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 9% (2007: 15%).

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 2008:

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 neighbouring 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$1,680,000 for the year ended 31 March 2008 (2007: HK$900,667). 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 2008, the aggregate amount payable by JFH to the Group for the license fee amounted to approximately HK$500,000 (2007: 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 2008 (2007: HK$432,000).

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 2008, 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 2008 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 48 to 54.

Auditors

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

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

Hong Kong, 16 July 2008

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Fascimile (852) 2810 9888
www.pwchk.com

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 72 to 121, which comprise the consolidated and company balance sheets as at 31 March 2008, 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 the 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 2008 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 2008

Consolidated Income Statement

For the year ended 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
Turnover	5	**786,002**	614,064
Other gains – net	6	**2,581**	5,781
Cost of inventories sold		**(21,618)**	(18,706)
Advertising costs		**(23,781)**	(19,044)
Building management fee		**(16,840)**	(14,181)
Bank charges		**(28,364)**	(22,080)
Employee benefit expenses	7	**(274,385)**	(230,969)
Depreciation and amortisation		**(33,003)**	(26,149)
Occupancy costs		**(79,957)**	(52,205)
Other operating expenses		**(60,469)**	(51,483)
Operating profit	8	**250,166**	185,028
Interest income		**23,667**	25,440
Profit before income tax		**273,833**	210,468
Income tax expense	9	**(47,060)**	(33,050)
Profit for the year		**226,773**	177,418
Earnings per share (HK cents)			
– Basic	10	**31.34**	24.61
– Diluted	10	**30.95**	24.52
Dividends	12	**136,022**	150,352

The notes on pages 79 to 121 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**109,456**	77,216
Leasehold land prepayments	14	**118,088**	26,661
Trade and other receivables, deposits and prepayments	18	**25,710**	17,295
Deferred income tax assets	19	**6,477**	2,977
		259,731	124,149
Current assets			
Inventories	20	**12,583**	10,618
Trade and other receivables, deposits and prepayments	18	**72,514**	47,749
Current income tax assets		**9,462**	7,121
Pledged bank deposits	21	**9,264**	10,707
Cash and cash equivalents	22	**349,811**	584,953
		453,634	661,148
Total assets		**713,365**	785,297
EQUITY			
Capital and reserves			
Share capital	23	**72,352**	72,340
Share premium and reserves	24	**302,327**	237,147
Total equity		**374,679**	309,487

Consolidated Balance Sheet

As at 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	19	**209**	79
Current liabilities			
Trade and other payables, deposits received and accrued expenses	25	**47,489**	41,114
Deferred revenue	26	**265,028**	420,007
Current income tax liabilities		**25,960**	14,610
		338,477	475,731
Total liabilities		**338,686**	475,810
Total equity and liabilities		**713,365**	785,297
Net current assets		**115,157**	185,417
Total assets less current liabilities		**374,888**	309,566

On behalf of the Board

Yuen Siu Ping	Yip Kai Wing
Director	*Director*

The notes on pages 79 to 121 form an integral part of these financial statements.

Balance Sheet

As at 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	15	**101,076**	101,076
Current assets			
Amounts due from subsidiaries	16	**174,510**	100,893
Cash and cash equivalents	22	**163**	72,533
		174,673	173,426
Total assets		**275,749**	274,502
EQUITY			
Capital and reserves			
Share capital	23	**72,352**	72,340
Share premium and reserves	24	**203,396**	202,160
Total equity		**275,748**	274,500
LIABILITIES			
Current liabilities			
Trade and other payables, deposits received and accrued expenses		**1**	2
Total equity and liabilities		**275,749**	274,502
Net current assets		**174,672**	173,424
Total assets less current liabilities		**275,748**	274,500

On behalf of the Board

Yuen Siu Ping
Director

Yip Kai Wing
Director

The notes on pages 79 to 121 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2008

	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
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 dividend paid	–	–	–	–	–	(99,360)	(99,360)
2007 interim dividend paid	–	–	–	–	–	(50,523)	(50,523)
2007 special dividend paid	–	–	–	–	–	(7,218)	(7,218)
Balance at 31 March 2007	72,340	146,756	774	(53,982)	–	143,599	309,487
Balance at 1 April 2007	72,340	146,756	774	(53,982)	–	143,599	309,487
Employee share option reserve							
– value of employee services	–	–	1,623	–	–	–	1,623
Exercise of share options	12	119	(56)	–	–	–	75
Lapse of share option	–	–	(288)	–	–	288	–
Profit for the year	–	–	–	–	–	226,773	226,773
2007 dividend paid	–	–	–	–	–	(92,611)	(92,611)
2008 interim dividend paid	–	–	–	–	–	(72,352)	(72,352)
Exchange differences	–	–	–	–	1,684	–	1,684
Balance at 31 March 2008	**72,352**	**146,875**	**2,053**	**(53,982)**	**1,684**	**205,697**	**374,679**

The notes on pages 79 to 121 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Profit before income tax		**273,833**	210,468
Adjustments for:			
– Depreciation of property, plant and equipment	13	**31,751**	25,485
– Amortisation of leasehold land prepayments	14	**1,252**	664
– Interest income		**(23,667)**	(25,440)
– Share option expenses		**1,623**	1,860
– Gain on disposal of property, plant and equipment	27	**(1,252)**	(2,500)
– Net fair value gains on revaluation of financial assets at fair value through profit or loss – unrealised and realised	6	**–**	(1,264)
Changes in working capital:		**283,540**	209,273
– Inventories		**(1,965)**	(3,929)
– Trade and other receivables, deposits and prepayments		**(33,180)**	1,213
– Trade and other payables, deposits received and accrued expenses		**6,375**	11,579
– Deferred revenue		**(154,251)**	(106,405)
Cash generated from operations		**100,519**	111,731
Interest received		**23,667**	25,440
Income tax paid		**(41,403)**	(29,205)
Net cash generated from operating activities		**82,783**	107,966

Consolidated Cash Flow Statement

For the year ended 31 March 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from investing activities			
Purchase of property, plant and equipment	13	**(65,017)**	(44,427)
Purchase of leasehold land	14	**(92,679)**	—
Proceeds from disposal of property, plant and equipment		**2,710**	—
Proceeds from disposal of financial assets at fair value through profit or loss		**—**	69,243
Decrease in pledged bank deposits		**1,443**	41,579
Net cash (used in)/generated from investing activities		**(153,543)**	66,395
Cash flows from financing activities			
Proceeds from issue of shares	23	**75**	2,038
Dividends paid	12	**(164,963)**	(157,101)
Net cash used in financing activities		**(164,888)**	(155,063)
Net (decrease)/increase in cash and cash equivalents		**(235,648)**	19,298
Cash and cash equivalents at beginning of the year		**584,953**	565,655
Exchange differences		**506**	—
Cash and cash equivalents at end of the year	22	**349,811**	584,953

The notes on pages 79 to 121 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").

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of beauty and wellness 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 2008.

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.

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) Standards, amendments to standards and interpretations effective in 2008

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 and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC) – Int 8, 'Scope of HKFRS 2', 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 in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) – Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2008 but not relevant to the Group's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 April 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Int 9, 'Re-assessment of embedded derivatives'.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments to standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 April 2009.

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 April 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKAS 32 and HKAS 1 Amendments 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply HKAS 32 and HKAS 1 Amendments from 1 April 2009, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 April 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments to standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Int 14 from 1 April 2009, but it is not expected to have any impact on the Group's financial statements.

- HKAS 27 (Revised) 'Consolidated and Separate Financial Statements' (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 April 2010, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 2 Amendment 'Share-based Payment Vesting Conditions and Cancellations' (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 April 2009, but it is not expected to have any impact on the Group's financial statements.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments to standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKFRS 3 (Revised) 'Business Combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 April 2010, but it is not expected to have any impact on the Group's financial statements.

(d) Interpretations 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 and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 12, 'Service concession arrangements' (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK(IFRIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) - Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

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 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 at 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 in the consolidated financial statements, 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 Summary of significant accounting policies *(Continued)*

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.

(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 Summary of significant accounting policies *(Continued)*

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

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 statement.

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 Summary of significant accounting policies *(Continued)*

2.7 Impairment of investments in subsidiaries

Assets that have an indefinite useful life or assets that are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets 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). Non-financial 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 previously written off are credited against other operating expenses in the income statement.

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.

2 Summary of significant accounting policies *(Continued)*

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in 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 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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, the deferred income tax is not accounted for if it 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. 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 Summary of significant accounting policies *(Continued)*

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.

(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.

The Group also participates in the employee retirement benefits of the respective municipal government in various places in Mainland China where the Group operates. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group 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 Summary of significant accounting policies *(Continued)*

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, with 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 Revenue recognition

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

Revenue from sales of beauty and wellness 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 beauty products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the products 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.

2.18 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 Summary of significant accounting policies *(Continued)*

2.19 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.

2.20 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

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk in relation to foreign exchange 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

Foreign exchange risk

The Group's transactions and receivables are mainly denominated in Hong Kong dollars and are not exposed to significant foreign exchange risk. Net assets of key foreign subsidiaries in Mainland China denominated in Renminbi are exposed to foreign currency translation risk. The Group periodically reviews liquid assets and liabilities held in currencies other than the Hong Kong dollars to ensure that net exposure is kept at an acceptable level.

As at 31 March 2008, if Renminbi had strengthened/weakened by 10% against Hong Kong dollars with all other variables held constant, profit for the year would have been approximately HK$665,000 (2007: HK$146,000) higher/lower mainly as a result of foreign exchange gains/losses on translation of Renminbi denominated cash and cash equivalents, trade receivables, prepayment and deposits and trade and other payables.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(b) Credit risk

The Group's credit risk is primarily attributable to deposits with banks and credit exposures to debtors. The Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group manages its deposits with banks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty. At 31 March 2008 deposits with banks of HK$359,075,000 (2007: HK$595,660,000) were placed with reputable banks with good credit ratings.

Sales to customers are made in cash or via major credit cards. The maximum exposure to credit risk is represented by the carrying amount of each trade receivables in the balance sheet date after deducting any impairment allowance, if any. The Group's exposure of credit risk arising from trade receivables is set out in note 18 to the accounts.

(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.

Based on the Group has steady cash inflow from operations and has adequate financial resources to fund its operations and future expansion. As at 31 March 2008, the Group's financial liabilities were mainly trade and other payables amounting to HK$1,651,000 (2007: HK$1,567,000), which were due within 12 months.

(d) Interest rate risk

The Group has no significant interest bearing assets except for cash and cash equivalents. The income and operating cash flows of which are substantially independent of changes in market interest rates.

At 31 March 2008, if interest rates on cash and cash equivalents had been 75 basis points higher/lower with all other variables held constant, the Group's interest income would have been HK$2,693,000 (2007: HK$4,468,000) higher/lower. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date. The 75 basis point increase or decrease represents management's assessment of a reasonable possible change in those interest rates which have the most impact on the Group over the period until the next annual balance sheet date.

3 Financial risk management *(Continued)*

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

4 Critical accounting estimates and judgments

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.

(b) Income taxes

The Group is subject to income taxes in Hong Kong and Mainland China. 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.

(c) Impairment of investments in subsidiaries and non-financial assets

The Group conducts impairment reviews of investments in subsidiaries and non-financial assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Group to estimate the future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. In 2008, after reviewing the business environment as well as the Group's objectives and past performance of the investments, management has concluded that there was no impairment loss for the above assets at 31 March 2008.

5 Segment information

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

(a) Sales of beauty and wellness services; and

(b) Sales of beauty products

Turnover consists of sales of beauty and wellness services and sales of beauty products.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Turnover:		
Sales of beauty and wellness services	**733,296**	560,588
Sales recognised upon expiry of prepaid beauty packages	**31,466**	35,306
Total gross sales of beauty and wellness services	**764,762**	595,894
Total gross sales of beauty products	**38,429**	37,230
	803,191	633,124
Inter-segment sales	**(17,189)**	(19,060)
Total turnover	**786,002**	614,064
Segment results:		
Beauty and wellness services	**263,626**	192,936
Beauty products	**13,321**	10,927
	276,947	203,863
Other gains – net	**2,581**	5,781
Unallocated costs	**(29,362)**	(24,616)
Operating profit	**250,166**	185,028
Interest income	**23,667**	25,440
Profit before income tax	**273,833**	210,468
Income tax expense	**(47,060)**	(33,050)
Profit for the year	**226,773**	177,418

5 Segment information *(Continued)*

	Group	
	2008	2007
	HK$'000	HK$'000
Segment assets:		
Beauty and wellness services	**487,089**	583,752
Beauty products	**8,681**	8,141
	495,770	591,893
Unallocated assets	**217,595**	193,404
Total assets	**713,365**	785,297
Segment liabilities:		
Beauty and wellness services	**(307,205)**	(457,069)
Beauty products	**(5,312)**	(4,052)
	(312,517)	(461,121)
Unallocated liabilities	**(26,169)**	(14,689)
Total liabilities	**(338,686)**	(475,810)
Other information:		
Capital expenditure		
Beauty and wellness services	**136,693**	45,647
Unallocated capital expenditure	**21,003**	1,280
	157,696	46,927
Depreciation and amortisation		
Beauty and wellness services	**32,315**	25,581
Beauty products	**115**	115
Unallocated depreciation and amortisation	**573**	453
	33,003	26,149

6 Other gains - net

	Group	
	2008	2007
	HK$'000	HK$'000
Financial assets at fair value through profit or loss		
– fair value gains (realised and unrealised)	**–**	1,264
Gross rental income	**731**	395
Gain on disposal of property, plant and equipment	**1,252**	2,500
Other income	**598**	1,622
	2,581	5,781

7 Employee benefit expenses (including directors' remuneration)

	Group	
	2008	2007
	HK$'000	HK$'000
Wages and salaries	**260,783**	219,346
Pension costs – defined contribution plan *(note a)*	**10,951**	9,152
Other staff welfare	**1,028**	611
Share based compensation *(note 23)*	**1,623**	1,860
	274,385	230,969

(a) Pensions - defined contribution plans

There were no forfeited contributions during the year (2007: Nil).

Contributions totaling HK$1,617,000 (2007: HK$1,333,000) were payable to the fund at the year-end.

7 Employee benefit expenses (including directors' remuneration) *(Continued)*

(b) Directors' and senior management's remuneration

The remuneration of every Director for the year ended 31 March 2008 is set out below:

Name of Director	Fee HK$'000	Salary HK$'000	Other benefits (i) HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Tsang Yue, Joyce	—	9,994	147	12	10,153
Lee Soo Ghee	—	8,935	147	12	9,094
Yuen Siu Ping	—	1,200	162	12	1,374
Hung Fan Kwan (ii)	—	547	108	7	662
Yip Kai Wing	—	637	54	12	703
Kwong Chi Ching (iii)	—	989	22	12	1,023
Mok Hin Yuk (iii)	—	387	—	12	399
Yu How Yuen (iv)	165	—	—	8	173
Cheng Kai Tai, Allen	165	—	—	8	173
Wong See Hong (v)	165	—	—	8	173
Yip Ki Chi, Luke (vi)	—	—	—	—	—
Soo SK Sean (vi)	—	—	—	—	—
	495	22,689	640	103	23,927

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

Name of Director	Fee HK$'000	Salary HK$'000	Other benefits (i) HK$'000	Employer's contribution to pension scheme HK$'000	Total 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
	360	19,761	1,049	78	21,248

7 Employee benefit expenses (including directors' remuneration) *(Continued)*

(b) Directors' and senior management's remuneration *(Continued)*

Notes:

(i) Other benefits represented share option.

(ii) Resigned on 30 October 2007.

(iii) Appointed on 14 September 2007.

(iv) Resigned on 30 May 2008.

(v) Resigned on 9 May 2008.

(vi) Appointed on 24 April 2008.

(c) Five highest paid individuals

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

	Number of individuals	
	2008	2007
Directors	**4**	4
Employee	**1**	1
	5	5

The five individuals whose remunerations were the highest in the Group for the year include four (2007: four) Directors whose remunerations are reflected in the analysis presented above. The remunerations payable to the remaining one (2007: one) individual during the year is as follows:

	2008	2007
	HK$'000	HK$'000
Basic salaries, share options and allowances	**869**	1,319
Retirement benefit cost	**12**	12
	881	1,331

7 Employee benefit expenses (including directors' remuneration) *(Continued)*

(c) Five highest paid individuals *(Continued)*

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

	2008	2007
Emolument Bands (in HK dollar)		
HK$nil – HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**–**	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.

8 Operating profit

Operating profit is stated after charging the following:

	Group	
	2008	2007
	HK$'000	HK$'000
Auditors' remuneration	**2,474**	1,985
Cost of inventories sold	**21,618**	18,706
Employee benefit expenses *(note 7)*	**274,385**	230,969
Depreciation and amortisation	**33,003**	26,149
Occupancy costs	**79,957**	52,205
Advertising costs	**23,781**	19,044
Building management fee	**16,840**	14,181
Bank charges	**28,364**	22,080
Other expenses	**57,995**	49,498

9 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2007: 17.5%) on the estimated assessable profit for the year.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Current income tax		
– Current year	**49,090**	33,434
– Under/(over) provision in prior years	**1,322**	(290)
	50,412	33,144
Deferred income tax *(note 19)*	**(3,352)**	(94)
	47,060	33,050

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	
	2008	2007
	HK$'000	HK$'000
Profit before income tax	**273,833**	210,468
Calculated at a taxation rate of 17.5% (2007: 17.5%)	**47,920**	36,832
Income not subject to taxation	**(4,298)**	(5,080)
Expenses not deductible for taxation purposes	**859**	942
Under/(over) provision in prior years	**1,322**	(290)
Tax effect of unrecognised tax losses	**2,554**	849
Effect of different tax rates in different tax jurisdictions	**(1,297)**	(203)
Income tax expense	**47,060**	33,050

10 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 2008 of HK$226,773,000 (2007: HK$177,418,000) and the weighted average of 723,498,142 (2007: 721,031,192) shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2008 is based on the Group's net profit attributable to shareholders for the year of HK$226,773,000 (2007: HK$177,418,000) and the weighted average of 732,715,761 (2007: 723,576,250) shares. The weighted average number of shares used in the calculation comprises the 723,498,142 (2007: 721,031,192) shares in issue during the year, as used in the basic earnings per share calculation, the weighted average of 9,217,619 (2007: 2,545,058) 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.

11 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$164,513,000 (2007: HK$164,376,000).

12 Dividends

	Group	
	2008	2007
	HK$'000	HK$'000
2008 interim dividend of HK10.0 cents per ordinary share (2007: HK7.0 cents per ordinary share)	**72,352**	50,523
Special dividend of HK nil cent per ordinary share (2007: HK1.0 cent per ordinary share)	**–**	7,218
Proposed final dividend of HK8.8 cents per ordinary share (2007: HK8.0 cents per ordinary share) *(note)*	**63,670**	57,882
Proposed special dividend of HK nil cent per ordinary share (2007: HK4.8 cents per ordinary share)	**–**	34,729
	136,022	150,352

Note:

Proposed final dividend in respect of 2008 of HK8.8 cents per share, amounting to total dividend of HK$63,670,000 is to be approved at the annual general meeting of the Company on 22 August 2008. These financial statements do not reflect this dividend payable.

13 Property, plant and equipment

	Group						
	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Equipment and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Computers HK$'000	Total HK$'000
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
Disposals	–	–	–	–	–	–	–
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
Year ended 31 March 2008							
Opening net book amount	**13,148**	**39,092**	**18,842**	**970**	**3,374**	**1,790**	**77,216**
Exchange differences	**–**	**304**	**103**	**14**	**–**	**11**	**432**
Additions	**25,763**	**27,034**	**8,297**	**729**	**983**	**2,211**	**65,017**
Disposals	**–**	**–**	**–**	**–**	**(1,458)**	**–**	**(1,458)**
Depreciation	**(536)**	**(20,258)**	**(7,938)**	**(399)**	**(1,464)**	**(1,156)**	**(31,751)**
Closing net book amount	**38,375**	**46,172**	**19,304**	**1,314**	**1,435**	**2,856**	**109,456**
As at 31 March 2008							
Cost	**40,258**	**108,814**	**79,400**	**6,817**	**7,048**	**7,877**	**250,214**
Accumulated depreciation	**(1,883)**	**(62,642)**	**(60,096)**	**(5,503)**	**(5,613)**	**(5,021)**	**(140,758)**
Net book amount	**38,375**	**46,172**	**19,304**	**1,314**	**1,435**	**2,856**	**109,456**

14 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	
	2008	2007
	HK$'000	HK$'000
At beginning of the year	**26,661**	27,325
Additions	**92,679**	—
Amortisation	**(1,252)**	(664)
At end of the year	**118,088**	26,661

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

	Group	
	2008	2007
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	**74,806**	26,661
Leases of over 50 years	**43,282**	—
	118,088	26,661

15 Investments in subsidiaries

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**101,076**	101,076

15 Investments in subsidiaries *(Continued)*

Particulars of the principal subsidiaries as at 31 March 2008:

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 beauty 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 beauty product, Hong Kong	10,000 ordinary shares of HK$1	–	100%
Beauty Expert (Logistics) Limited	Hong Kong, limited liability company	Sales of beauty 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 wellness services and sales of beauty 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%	–

15 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 wellness services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MCB Limited	Hong Kong, limited liability company	Sales of beauty and wellness services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MCP Limited	Hong Kong, limited liability company	Sales of beauty and wellness services, Hong Kong	1,000 ordinary shares of HK$1	–	100%
MEH Limited	Hong Kong, limited liability company	Sales of beauty and wellness services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MFW Limited	Hong Kong, limited liability company	Sales of beauty and wellness services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MHWC Limited	Hong Kong, limited liability company	Sales of beauty and wellness services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MIR Limited	Hong Kong, limited liability company	Sales of beauty and wellness services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MKL Limited	Hong Kong, limited liability company	Sales of beauty and wellness 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%
Modern Advertising (HK) Limited	Hong Kong, limited liability company	Provision of advertising services, Hong Kong	10,000 ordinary shares of HK$1	–	100%

15 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
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 wellness services and sales of beauty 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 wellness services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MOH Limited	Hong Kong, limited liability company	Sales of beauty and wellness 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 wellness services, Hong Kong	1,000 ordinary shares of HK$1	–	100%
MQQ Limited	Hong Kong, limited liability company	Sales of beauty and wellness services, Hong Kong	10,000 ordinary shares of HK$1	–	100%
MWH Limited	Hong Kong, limited liability company	Sales of beauty and wellness 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%

15 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
Step Well Investment Limited	Hong Kong, limited liability company	Sales of beauty and wellness services, Hong Kong	1,000 ordinary shares of HK$1	–	100%
Topluck International Holdings Limited	Hong Kong, limited liability company	Sales of beauty and wellness 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%
Shanghai Be Beauty Salon and Fitness Company Limited 上海貝倚美容健身有限公司 ("SHBS"), (a)	PRC, limited liability company	Sales of beauty and wellness services, PRC	HK$10,000,000	–	100%
Guangzhou Be Beauty Salon and Fitness Company Limited 廣州貝倚美容健身有限公司 ("GZBS"), (b)	PRC, limited liability company	Sales of beauty and wellness services, PRC	HK$10,000,000	–	100%
Guangzhou Euro Weal Thbeauty Products Company Limited 廣州歐裕美容產品有限公司 ("GZEW"), (c)	PRC, limited liability company	Sales of beauty products PRC	HK$3,000,000	–	100%
Beijing Modern Beauty Salon Company Limited 北京芭伊妮美容有限公司 ("BJMBS"), (d)	PRC, limited liability company	Sales of beauty and wellness services, PRC	US$1,250,000	–	100%

15 Investments in subsidiaries *(Continued)*

Notes:

(a) SHBS is a wholly foreign owned enterprise established in the PRC with an approved period of operation of 20 years until April 2027.

(b) GZBS is a wholly foreign owned enterprise established in the PRC with an approved period of operation of 20 years until July 2026.

(c) GZEW is a wholly foreign owned enterprise established in the PRC with an approved period of operation of 20 years until August 2027.

(d) BJMBS is a wholly foreign owned enterprise established in the PRC with an approved period of operation of 20 years until June 2027.

(e) All subsidiaries established in the PRC have financial reporting year end dated on 31 December in accordance with the local statutory requirements, which is not coterminous with the group. The consolidated financial statements of the Group were prepared based on the financial statements of these subsidiaries for the twelve months ended 31 March 2008.

16 Amounts due from subsidiaries

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

17 Financial assets at fair value through profit or loss

	Group	
	2008	2007
	HK$'000	HK$'000
At beginning of the year	**–**	67,979
Disposal	**–**	(67,979)
At end of the year	**–**	–

18 Trade and other receivables, deposits and prepayments

	Group	
	2008	2007
	HK$'000	HK$'000
Non-current assets		
Rental and other deposits	**25,710**	17,295
Current assets		
Trade receivables	**48,075**	30,270
Rental and other deposit, prepayments and other receivables	**23,989**	17,094
Amount due from a related company *(note 30(b))*	**450**	385
	72,514	47,749
	98,224	65,044

18 Trade and other receivables, deposits and prepayments *(Continued)*

The fair values 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 60 days (2007: 45 days). An ageing analysis of trade receivables as at the balance sheets dates is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 – 30 days	**39,767**	24,251
31 – 60 days	**8,296**	5,847
61 – 90 days	**12**	172
	48,075	30,270

At 31 March 2008 and 2007, there were no trade receivables past due.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Hong Kong dollar	**47,814**	30,270
Renminbi	**261**	—
	48,075	30,270

The trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

19 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	
	2008	2007
	HK$'000	HK$'000
Deferred income tax assets to be recovered after more than 12 months	**6,477**	2,977
Deferred income tax liabilities to be settled after more than 12 months	**(209)**	(79)
	6,268	2,898

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

	Group	
	2008	2007
	HK$'000	HK$'000
Beginning of the year	**2,898**	2,804
Exchange differences	**18**	—
Recognised in the consolidated income statement *(note 9)*	**3,352**	94
End of the year	**6,268**	2,898

Deferred income tax assets are recognised for tax losses carry-forward 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 HK$3,579,000 (2007: HK$849,000) in respect of losses amounting to HK$16,821,000 (2007: HK$4,851,000) that can be carried forward against future taxable income.

19 Deferred income tax *(Continued)*

The movement in deferred income tax assets and liabilities during the year of, without taking into consideration the offsetting of balances, within the same taxation jurisdiction is as follows:

Deferred income tax assets:

	Group					
	Decelerated tax depreciation		Others		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Beginning of the year	**2,891**	2,768	**86**	86	**2,977**	2,854
Credited/(charged) to consolidated income statement	**3,568**	123	**(86)**	—	**3,482**	123
Exchange differences	**18**	—	**—**	—	**18**	—
End of the year	**6,477**	2,891	**—**	86	**6,477**	2,977

Deferred income tax liabilities:

	Group Accelerated depreciation allowance	
	2008	2007
	HK$'000	HK$'000
Beginning of the year	**(79)**	(50)
Charged to consolidated income statement	**(130)**	(29)
End of the year	**(209)**	(79)

20 Inventories

At 31 March 2008 and 31 March 2007, inventories represented finished goods held on hand.

21 Pledged bank deposits

At 31 March 2008 and 31 March 2007, the Group pledged bank deposits of approximately HK$9,264,000 and HK$10,707,000 respectively in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company.

22 Cash and cash equivalents

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

	Group	
	2008	2007
	HK$'000	HK$'000
Cash at bank and cash in hand	**75,990**	53,541
Short-term bank deposits	**273,821**	531,412
	349,811	584,953

	Company	
	2008	2007
	HK$'000	HK$'000
Cash at bank and cash in hand	**163**	1,517
Short-term bank deposits	**–**	71,016
	163	72,533

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

	Group	
	2008	2007
	HK$'000	HK$'000
Hong Kong dollar	**3,632**	154,636
United States dollar	**266,857**	375,776
Renminbi	**3,332**	1,000
	273,821	531,412

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

23 Share capital

(a) Authorised and issued capital

	Number of shares	Approximate amount HK$'000
Authorised:		
As at 31 March 2007 and 31 March 2008	10,000,000,000	1,000,000
Issued and fully paid:		
As at 31 March 2007	723,395,000	72,340
Issue of shares upon exercise of share options	125,000	12
As at 31 March 2008	723,520,000	72,352

During the year ended 31 March 2008, 125,000 ordinary shares of HK$0.10 were issued in respect of the Pre-IPO share option exercised by a director, under the Pre-IPO Scheme (defined in note 23(b)(i) below) at exercise price at 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 option 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 outstandings are as follows:

	Number of options as at 1 April 2007	Number of options exercised during the year	Number of options as at 31 March 2008
Directors	125,000	(125,000)	–

23 Share capital *(Continued)*

(b) Share Option *(Continued)*

(i) Pre-IPO Share Option Scheme *(Continued)*

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 shown above, 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.

(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 pursuant 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 outstandings are as follows:

	Number of options as at 1 April 2007	Reclassification	Number of options lapsed during the year	Number of options as at 31 March 2008
Directors	5,700,000	200,000	(1,000,000)	**4,900,000**
Senior management	1,350,000	—	(600,000)	**750,000**
Other employees	8,010,000	(200,000)	(260,000)	**7,550,000**
	15,060,000	—	(1,860,000)	**13,200,000**

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.

24 Share premium and reserves

	Group					
	Share premium HK$'000	Share based compensation reserve HK$'000	Merger reserve (note a) HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 April 2006	143,582	444	(53,982)	–	123,228	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 dividend paid	–	–	–	–	(99,360)	(99,360)
2007 interim dividend paid	–	–	–	–	(50,523)	(50,523)
2007 special dividend paid	–	–	–	–	(7,218)	(7,218)
As at 31 March 2007	146,756	774	(53,982)	–	143,599	237,147
Representing:						
Premium and reserve						144,536
Proposed dividends						92,611
As at 31 March 2007						237,147
As at 1 April 2007	146,756	774	(53,982)	–	143,599	237,147
Employee share option:						
Value of employee services	–	1,623	–	–	–	1,623
Issue of shares upon exercise of share option	119	(56)	–	–	–	63
Lapse of share option	–	(288)	–	–	288	–
Profit for the year	–	–	–	–	226,773	226,773
2007 dividend paid	–	–	–	–	(92,611)	(92,611)
2008 interim dividend paid	–	–	–	–	(72,352)	(72,352)
Exchange differences	–	–	–	1,684	–	1,684
As at 31 March 2008	**146,875**	**2,053**	**(53,982)**	**1,684**	**205,697**	**302,327**
Representing:						
Premium and reserve						238,657
Proposed dividends						63,670
As at 31 March 2008						**302,327**

(a) Pursuant to the Reorganisation effected on 24 January 2006, 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, 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.

24 Share premium and reserves *(Continued)*

	Share premium HK$'000	Share based compensation reserve HK$'000	Company Contributed surplus (note a) HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 April 2006	143,582	444	47,076	225	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 dividend paid	–	–	–	(99,360)	(99,360)
2007 interim dividend paid	–	–	–	(50,523)	(50,523)
2007 special dividend paid	–	–	–	(7,218)	(7,218)
As at 31 March 2007	146,756	774	47,076	7,554	202,160
Representing:					
Premium and reserve					109,549
Proposed dividends					92,611
As at 31 March 2007					202,160
As at 1 April 2007	146,756	774	47,076	7,554	202,160
Employee share option:					
Value of employee services	–	1,623	–	–	1,623
Issue of shares upon exercise of share option	119	(56)	–	–	63
Lapse of share option	–	(288)	–	288	–
Profit for the year	–	–	–	164,513	164,513
2007 final dividend paid	–	–	–	(92,611)	(92,611)
2008 interim dividend paid	–	–	–	(72,352)	(72,352)
As at 31 March 2008	**146,875**	**2,053**	**47,076**	**7,392**	**203,396**
Representing:					
Premium and reserve					139,726
Proposed dividends					63,670
As at 31 March 2008					**203,396**

(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.

25 Trade and other payables, deposits received and accrued expenses

	Group	
	2008	2007
	HK$'000	HK$'000
Trade payables	**1,651**	1,567
Other payables, deposits received and accrued expenses	**45,838**	39,547
	47,489	41,114

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 90 days	**1,651**	1,567

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

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

	Group	
	2008	2007
	HK$'000	HK$'000
Hong Kong dollar	**1,627**	1,415
Renminbi	**24**	152
	1,651	1,567

26 Deferred revenue

An ageing analysis of the deferred revenue is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within 1 year	**125,713**	220,618
More than 1 year but within 2 years	**72,286**	119,887
More than 2 years but within 3 years	**67,029**	79,502
	265,028	420,007

Movement of deferred revenue

	Group	
	2008	2007
	HK$'000	HK$'000
Beginning of the year	**420,007**	526,412
Exchange differences	**(728)**	—
Receipts during the year	**610,511**	489,489
Sales of beauty and wellness services	**(733,296)**	(560,588)
Sales recognised upon expiring prepaid beauty packages	**(31,466)**	(35,306)
End of the year	**265,028**	420,007

27 Non-cash transaction to consolidated cash flow statements

During the year ended 31 March 2007, two motor vehicles with zero net book value were traded in for another motor vehicle at a consideration of HK$2,500,000.

28 Commitments

(a) Commitments under operating leases

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

	Group	
	2008	2007
	HK$'000	HK$'000
Not later than one year	**97,849**	64,034
Later than one year and not later than five years	**130,809**	85,160
Over five years	**5,207**	—
	233,865	149,194

(b) Other commitments

Other commitments at the balance sheet date are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Capital expenditure contracted for but not yet incurred in the financial statements in respect of acquisition of property, plant and equipment	**8,275**	5,999

29 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.

30 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 2008 HK$'000	Group 2007 HK$'000
(I) Rental expenses paid to related companies:			
Chain Tech International Limited	(i)	**432**	432
Luck Elegant Industrial Limited	(i)	**1,680**	901
		2,112	1,333
(II) Franchise income received from a related company:			
JF Holdings (S) Pte Limited	(ii)	**500**	400

Note:

(i) 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.

(ii) The amount 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 company is controlled by Tsang Yue, Joyce.

30 Related party balances and transactions *(Continued)*

(b) Balance with related parties

Amounts due from a related company

	Group			
	Balance as at 31 March 2008 HK$'000	Balance as at 31 March 2007 HK$'000	**Maximum outstanding balance for the year ended 31 March 2008 HK$'000**	Maximum outstanding balance for the year ended 31 March 2007 HK$'000
JF Holdings (S) Pte Limited	**450**	385	**450**	385

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

(c) Director guarantee

As at 31 March 2008, a director has indemnified certain companies within the Group against any loss resulting from any litigation and claims occurred prior to the Listing Date.

(d) Key management compensation:

	Group	
	2008 HK$'000	2007 HK$'000
Fee	**495**	360
Salaries	**22,689**	19,761
Employer's contribution to pension scheme	**103**	78
Share based payment	**640**	1,049
	23,927	21,248

31 Events after the balance sheet date

On 5 June 2008, Rise Luck Development Limited, a wholly-owned subsidiary of the Company incorporated after the balance sheet date, entered into an agreement with Ching Ming International Development Limited for the acquisition of a property at a consideration of HK$132,800,000.

Properties held by the Group

As at 31 March 2008

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
D1-D14, 3rd Floor, Block D and Car Parking Space Nos. 131-132 on 1st Floor Tsing Yi Industrial Centre Phase II Nos. 1-33 Cheung Tat Road Tsing Yi New Territories	Lease period between 10-50 years	Storage
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

Location	Lease term	Use
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
2nd Floor The Grandeur No. 47 Jardine's Bazaar Hong Kong	Lease period between 10-50 years	Spa and beauty treatment
1st Floor The Grandeur No. 47 Jardine's Bazaar Hong Kong	Lease period between 10-50 years	Japanese restaurant
1st Floor, 2nd Floor (including the staircase entrance on the Ground Floor appertaining to and exclusively leading to the said First Floor and Second Floor), Main Roof and the Exterior of the Eastern and Western Side Walls of Wai Lun Building Nos. 78-84A Hennessy Road Hong Kong	Lease period over 50 years	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				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**786,002**	614,064	498,265	456,932	381,656
Profit before taxation	**273,833**	210,468	143,477	126,743	72,944
Income tax expense	**(47,060)**	(33,050)	(20,966)	(21,572)	(11,453)
Profit for the year	**226,773**	177,418	122,511	105,171	61,491

Consolidated assets and liabilities

	As at 31 March				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**259,731**	124,149	163,639	122,423	94,288
Total current assets	**453,634**	661,148	685,818	630,767	508,597
Total assets	**713,365**	785,297	849,457	753,190	602,885
Total non-current liabilities	**(209)**	(79)	(50)	(103)	(1,156)
Total current liabilities	**(338,477)**	(475,731)	(564,135)	(634,352)	(578,744)
Total liabilities	**(338,686)**	(475,810)	(564,185)	(634,455)	(579,900)
Net assets	**374,679**	309,487	285,272	118,735	22,985

Note: The summary of the consolidated assets and liabilities of the Group as at years end and the consolidated results 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.

Modern Beauty Salon Holdings Limited

6/F, Sino Industrial Plaza,
9 Kai Cheung Rd., Kowloon Bay,
Kowloon, Hong Kong
Tel: (852) 2866 2377
Fax: (852) 2804 6607
Email: ir@modernbeautysalon.com
Website: www.modernbeautysalon.com

現代美容控股有限公司

香港九龍九龍灣啟祥道9號信和工商中心6樓
電話：(852) 2866 2377
傳真：(852) 2804 6607
電郵：ir@modernbeautysalon.com
網址：www.modernbeautysalon.com

MODERN BEAUTY SALON HOLDINGS LIMITED
現代美容控股有限公司