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
2008 / 2009 年報

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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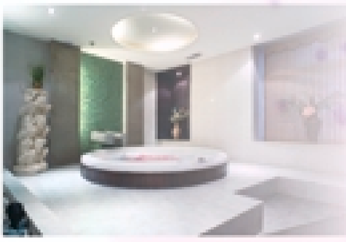
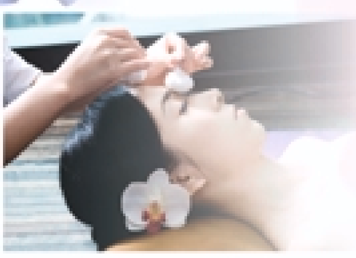
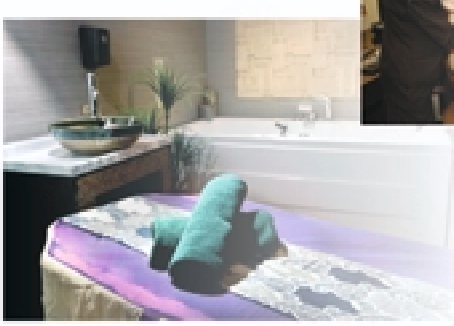







Spa
Be Charming & Impressive

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 2009, the Group had 36 service centres and 13 "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 2009, the Group has 10 service centres in Mainland China, with four in Beijing, three in Shanghai and three in Guangzhou.

The total weighted average gross floor area covered by the 46 service centres in Hong Kong and Mainland China reached approximately 392,000 square feet, serving 263,000 customers.

Corporate Information

BOARD OF DIRECTORS
Mr. Lee Soo Ghee *(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. Tung Kwok Lui

COMPANY SECRETARY
Mr. Tung Kwok Lui

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
Mr. Lee Soo Ghee *(Chairperson)*
Mr. Cheng Kai Tai, Allen
Mr. Yip Ki Chi, Luke
Mr. Soo SK Sean

MEMBERS OF NOMINATION COMMITTEE
Mr. Lee Soo Ghee *(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

Standard Chartered Bank (Hong Kong) Limited
4-4A Des Voeux Road Central
Hong Kong

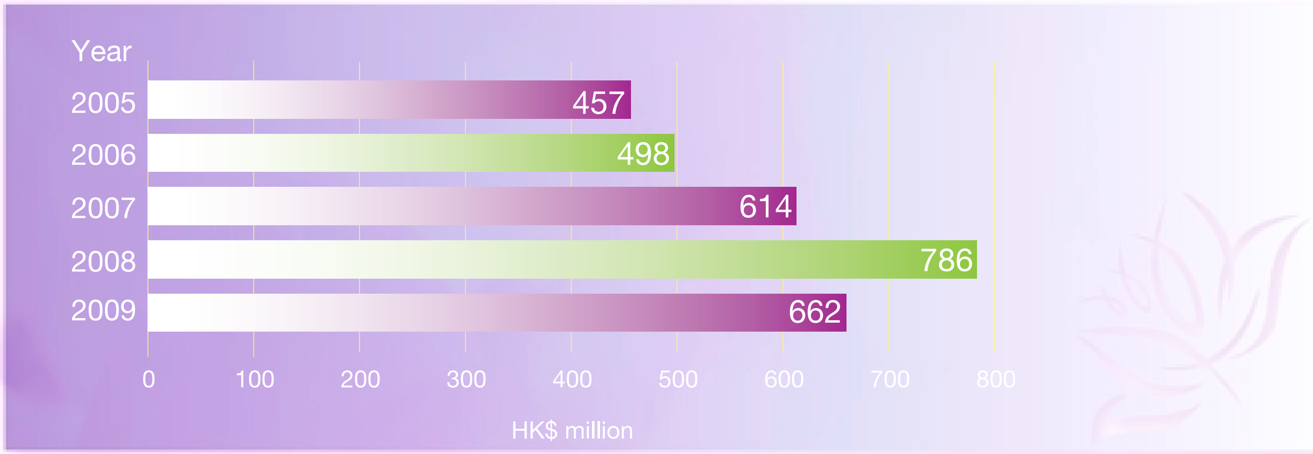
STOCK CODE
919

INVESTORS RELATION
Email address: ir@modernbeautysalon.com

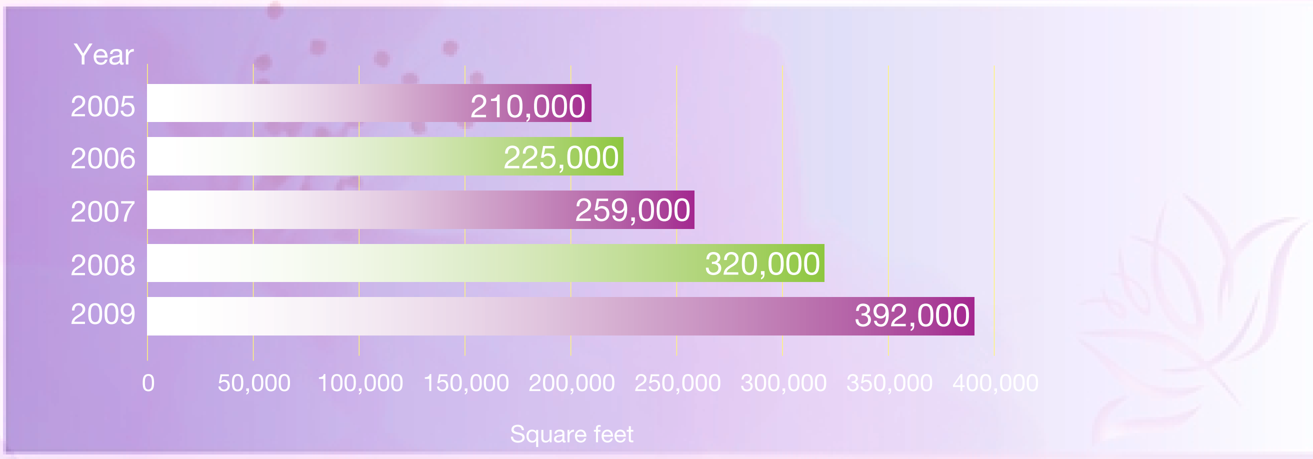
WEBSITE
www.modernbeautysalon.com

Financial and Operation Highlights

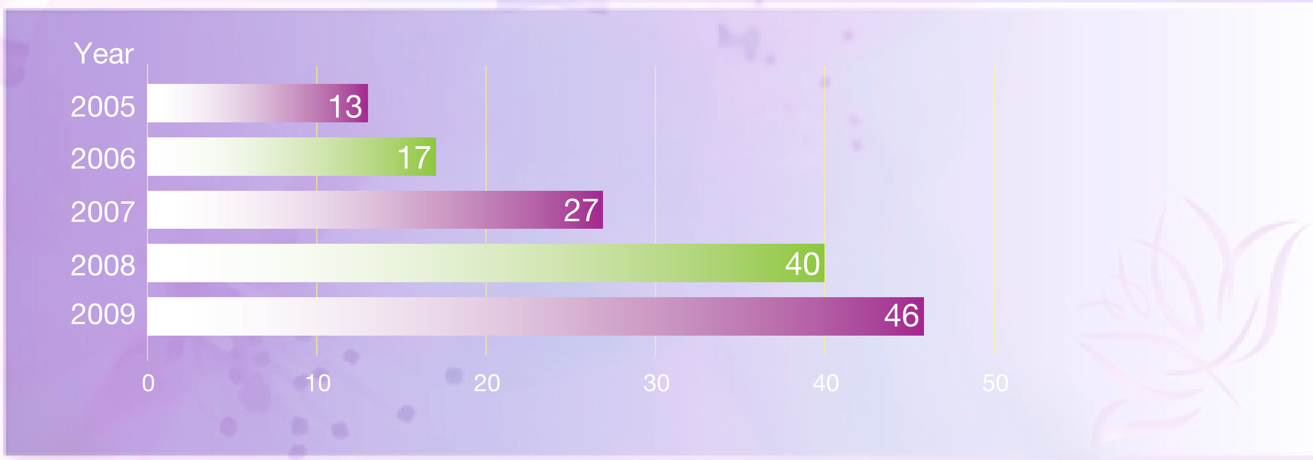
TURNOVER



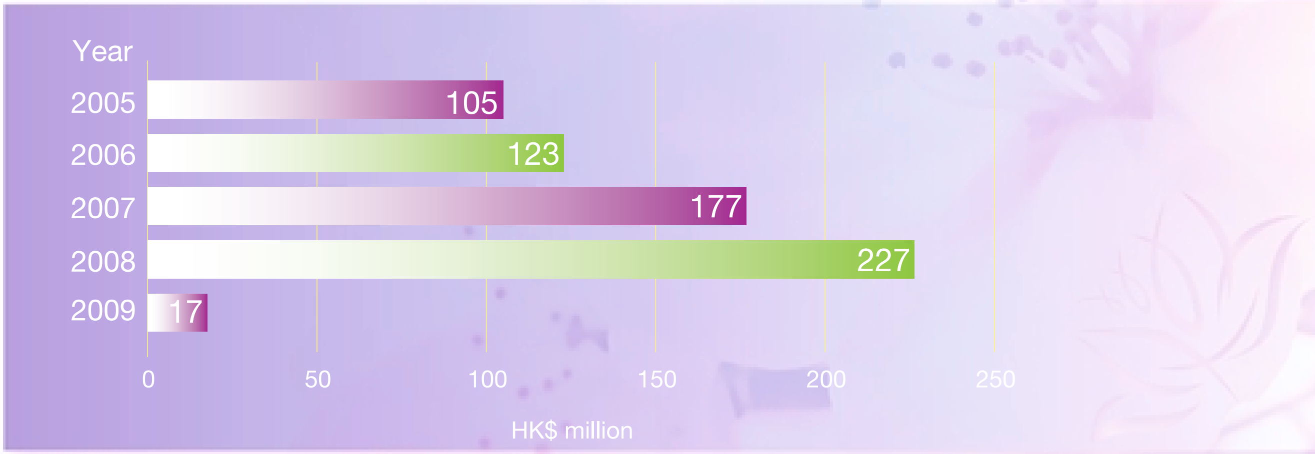
TOTAL WEIGHTED AVERAGE GROSS FLOOR AREA



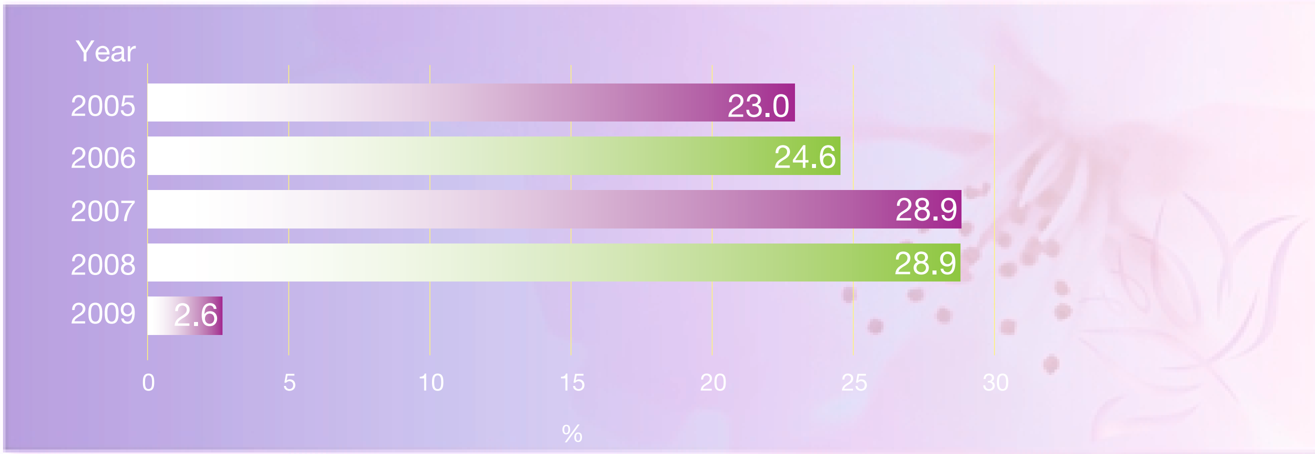
NUMBER OF SERVICE CENTRES



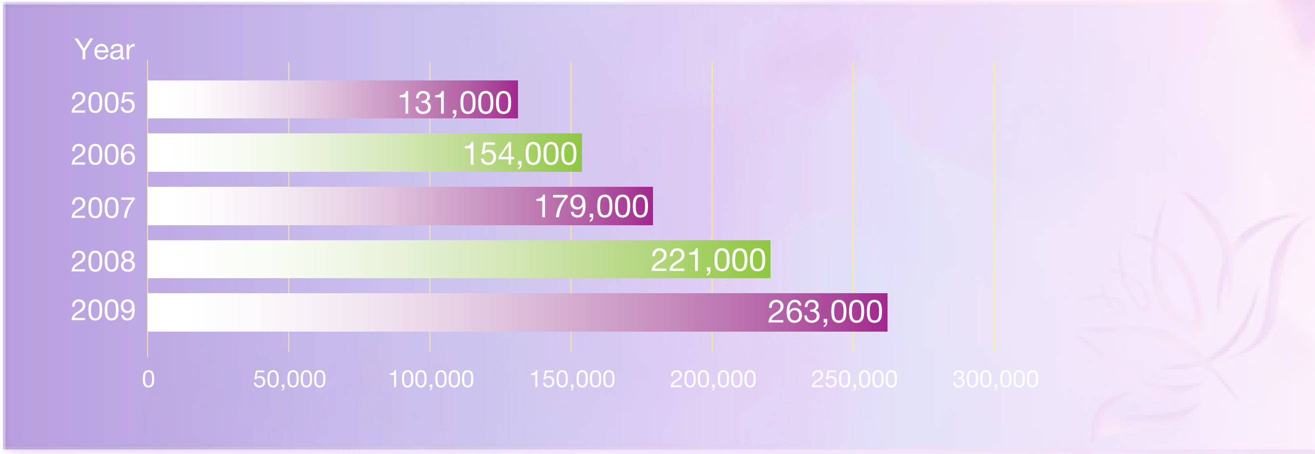
PROFIT FOR THE YEAR



NET PROFIT MARGIN



NUMBER OF CUSTOMERS



Slimming

Be Confident & Refreshing

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**", male 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

MODERN BEAUTY SALON
現代美容中心

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

be sanctuary spa 貝倚 六星級水療生活館

YUE SPA

休閒空間 Moment of Serenity

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 meet 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

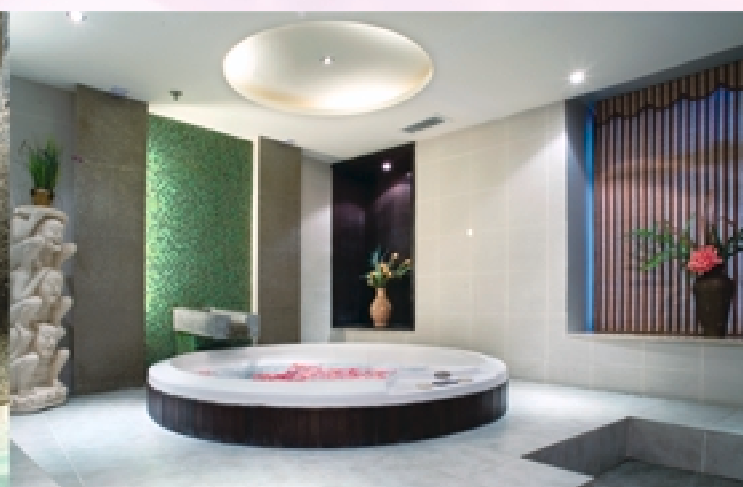
Provision of a comprehensive range of weight management services including whole and partial body slimming treatments. Our service centres are equipped with advanced healthcare and slimming equipment assisting customers in reviving body figures upon proper guidance from independent professional consultants.

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 offered in the centre is performed by registered medical practitioners.

BEAUTY EXPERT INTERNATIONAL COLLEGE

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 Central Sheung Wan, Causeway Bay, To Kwa Wan, Mong Kok, Kwai Chung, Mei Foo, Kwun Tong, Fanling, Tai Po and Tuen Mun.

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

SERVICE NETWORK COVERAGE

As at 31 March 2009, we have 36 service centres in Hong Kong covering virtually all prime commercial locations and densely populated residential districts.

In Mainland China, we have 10 service centres respectively located in Beijing, Shanghai and Guangzhou as at 31 March 2009.

Key Events and Awards

HONG KONG MARKET

During the year, the Group opened 12 new service centres which are located in Causeway Bay, Wan Chai, Quarry Bay, Tai Po, Hung Hom, Jordan, Ho Man Tin, Kwai Chung, Mei Foo, Sai Kung.

In the meantime, six '**be Beauty Shop**' outlets are opened in major commercial and residential areas including Sham Shui Po, To Kwa Wan, Mei Foo, and Hunghom.

MAINLAND CHINA MARKET

During the year, the Group added two new service centres in Mainland China, one in Beijing and one in Shanghai.

SOCIAL RESPONSIBILITIES

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

The "White Knight Rescue Action" is launched to aid beauty centres that have been affected by financial turmoil and in a bid to support the fellow members of the industry to confront the economic crisis.

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

RECOGNITION

We were accredited as "**Asia's 200 Under a Billion**" by the Forbes Magazine. Being the only beauty and health services company in Asia that make the list for two consecutive years, the honour is a testimony to Modern Beauty's internationally recognised profitability, brand reputation and corporate governance. In addition, we have also obtained the "**CAPITAL Best of the Best 2008**" award.

Furthermore, the Group has won the Gold Awards of the '**Consumer's Most Favorable Hong Kong Brands 2009**'. The award is based on a survey, conducted by the PolyU Asian Centre for Brand Management, on the customer's favourite brands from December 2008 to February 2009.

"**Modern Beauty Salon" and "be Sanctuary Spa**" were once again being granted the Gold Awards of the "**PRC Consumer's Most Favourable Hong Kong Brand**" in the beauty and slimming services and the healthcare categories.

We have also won the "**Brands original from HK 2008**" and "**Most Favourable Enterprise with Good Credibility**".

The Beauty Expert International College was awarded the "**Beauty Talent Discovery Award**" in the 2008 Sisters BeautyPro Awards.

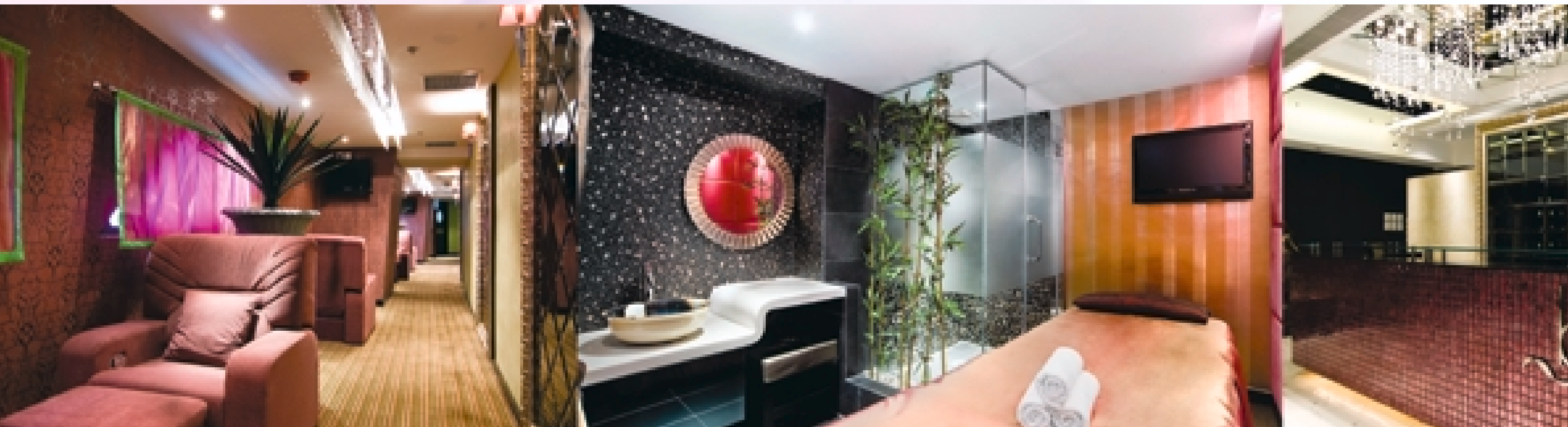
One of our 'be Beauty Shop' product 'Marine Moisturizing Renewal Night Cream' has won the '**Professional Moisturizing Product Award**' in the 2008 Sisters BeautyPro Awards.


Gym & Yoga
Be Healthy & Energetic

Chairperson's Statement

Lee Soo Ghee
Chairperson & Chief Executive Officer

Tsang Yue, Joyce
Founder



Results

On behalf of the Board of Directors (the "Board" or the "Directors") of Modern Beauty Salon Holdings Limited, (the "Company"), I am pleased to present to the shareholders the audited consolidated results of the Company and its subsidiaries (the "Group") for the financial year ended on 31 March 2009.

During the year under review, the financial turmoil in the United States had serious impacts on the global economy all over the world including Hong Kong. While financial institutions are tightening credits available for consumers, and various business sectors have been influenced accordingly, the declined consumers' spending power has affected the operating results of the Group. It was particularly obvious after the bankruptcy of certain investment banks in the United States in the beginning of the third quarter of 2008. In spite of the recession, the Group secured a turnover of HK$661.8 million this year, which means there is only a moderate decline of 15.8% and, in stark contrast with many of the competitors in our industry, a net profit of HK$17.2 million has been achieved.

Our customer base in total increased from approximately 221,000 in 2008 to 263,000 in 2009, representing a growth rate of 19%. The total weighted average gross floor area grew from approximately 320,000 square feet in 2008 to 392,000 square feet in 2009, showing an increase of 22.5%.

Advancing at this moment, we have organized various activities to enhance the profiteering opportunity. As a market leader, the Group has launched, for instance, a "White Knight Rescue Action" to aid beauty centres that have been affected by the financial turmoil and in a bid to support fellow members of the industry to confront the economic crisis. It potentially helps sustain the beauty industry, and at the same time increases our market share as well as enhancing brand recognition.

Hong Kong Business

Revenue generated from the Hong Kong market amounted to HK$626.0 million, representing a decline of 18.9%. As we set up additional service centres in both commercial and residential areas, the number of our service centres in Hong Kong grew from 32 in 2008 to 36 in 2009. Our customer base increased, at a growth rate of 15.2%, from 210,000 in 2008 to 242,000 in 2009. The total weighted average gross floor area of the 36 service centres is approximately 340,000 square feet. Furthermore, we opened six "be Beauty Shop" to market and distribute the products of our own-label "be", making the total number of "be Beauty Shop" to 13.

Our service network has been continuously growing with further extension. On 28 February 2009, our flagship service centre in Whampoa Garden was opened. This 2-storey flagship service centre covers an area of around 23,000 square feet. It consists of 43 facial rooms, six deluxe spa rooms, five sauna-bathrooms, two Thai massage rooms, a yoga and a foot massage area. Whampoa flagship service centre is currently one of the largest service centres of the Group and its opening was a milestone in our development history. We believe that the Whampoa Centre could attract the middle to high income class customers who are working or living in the district.

Chairperson's Statement

The turnover of the Men's beauty services reached HK$37.5 million, recording a significant growth of 38.9% compared with that last year (2008: HK$27.0 million). The number of male customers showed a double-digit growth of over 26.5% in Hong Kong. In February 2009, a shop exclusively providing professional beauty, skin care and slimming services for men was opened in Ho Man Tin. We expect the demand of a full range of beauty services for men will increase exponentially in next few years.

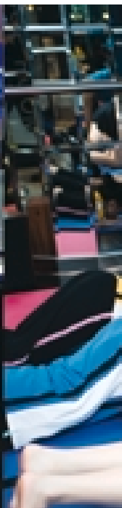
In June 2008, the Group acquired a 12-storey commercial property located in Tsim Sha Tsui, with a gross floor area approximating 13,355 square feet at an investment cost of HK$132.8 million. The Group plans to develop the premises into a spa villa to provide one-stop spa and beauty treatment service in future.

Mainland China Business

Our development in Mainland China for the year under review was remarkable. This year, we opened two new service centres, one in Beijing and one in Shanghai. As of 31 March 2009, the Group has owned 10 service centres in Mainland China. The customer base increased from 11,000 in 2008 to 21,000 in 2009, up by 90.9%. The total weighted average gross floor area for the 10 service centres is approximately 52,000 square feet. Revenue generated from Mainland China has reached HK$35.7 million, representing a 1.57 times in sales growth compared to that last year.

Given the uncertainty in the economy in Mainland China next year, the Group will maintain the operation scale in Mainland China on a prudent basis. In the meantime, the Group will look for in establishing new service centres to meet economy trends and demands.

In order to efficiently strike a balance between increasing our market share in the Mainland China market and utilizing minimum resources, the Group will introduce franchise business in the near future. Backed by the high reputation in Hong Kong and the expertise in the industry, we expect our franchise programme could attract many potential investors in Mainland China to enter the industry.



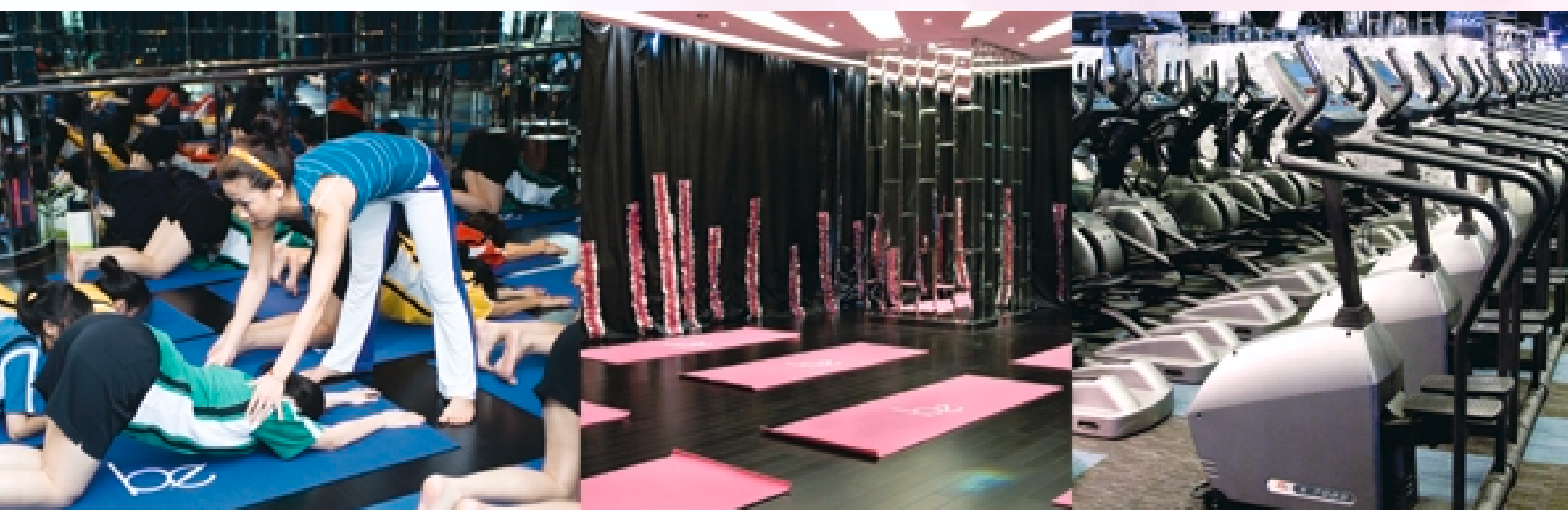
Outlook and Prospects

We expect the Hong Kong economy will recover at a slow but stable pace. Therefore, the Directors believe that the consumer's confidence will recuperate in the coming year following the recovery of the economy. The Group will carefully utilise the resources for business development in order to achieve the most desirable outcome. In addition, the Group has taken an array of major cost saving measures and will closely monitor the financial results following the implementation. Our policy will remain dynamic depending on the economy and we will be ambitiously looking for possibilities of further expansion. The Directors are confident that the Group's overall performance in the coming year will be improved.

Amid the challenging global economy, it is anticipated that industry peers lacking in financial strength may result in an inevitable shrinkage. However, as an enthusiastic market player with solid foundation, the Group will be competent enough to confront the intense sea current, and convert challenges into opportunities.

Lee Soo Ghee
Chairperson & Chief Executive Officer

Hong Kong, 17 July 2009



Skin Care

Be Beautiful & Attractive

Management Discussion and Analysis

BUSINESS REVIEW

Fitness Service Grows from Strength to Strength

During the year under review, the Group has significantly strengthened its Fitness Service by launching a new exercise combo offer to expand its customer base. 'Dance Square', which features a wide range of yoga and dance classes such as hot yoga, thai-boxing and hip hop dance, is aimed at helping our customers achieve their desired body-shape and body weight.

We have yoga and fitness centres in Central, Causeway Bay, Admiralty, Hung Hom, Jordan and Tsuen Wan. Revenue generated from this segment reached HK$45.7 million, representing a 19.9% decrease from the preivous year.

Extension of Retail Network for 'be Beauty Shop'

During the year, we continued to expand our business by promoting our own-label products. Having achieved encouraging response from the market, in addition to the seven existing outlets, we have opened six more outlets in various densely populated residential areas. They are: Shum Shui Po, To Kwa Wan, Mei Foo, Hunghom, Central and Tai Po. The new openings took the number of 'be Beauty Shop' to 13 as at 31 March 2009.

Seven skincare series are available at the outlets, including Icy White Deluxe Series, Camomile Kiss Series, Collagen Cellular Regenerating Series, Self Blending Serum Concentrate, Problem Skin Series, Deep Ocean Skin Series and Magic Essence. They are specially designed to suit different skin types. Each outlet carries over 80 types of products. Products sales reached HK$20.0 million, or 3.0% of total revenue, down 5.8% from the previous year (2008: HK$21.2 million).

In order to expand our market share, the franchise arrangement of 'be Beauty Shop' has been promoted to the public. We are confident about its business potential.

Growth in Male Care Segment

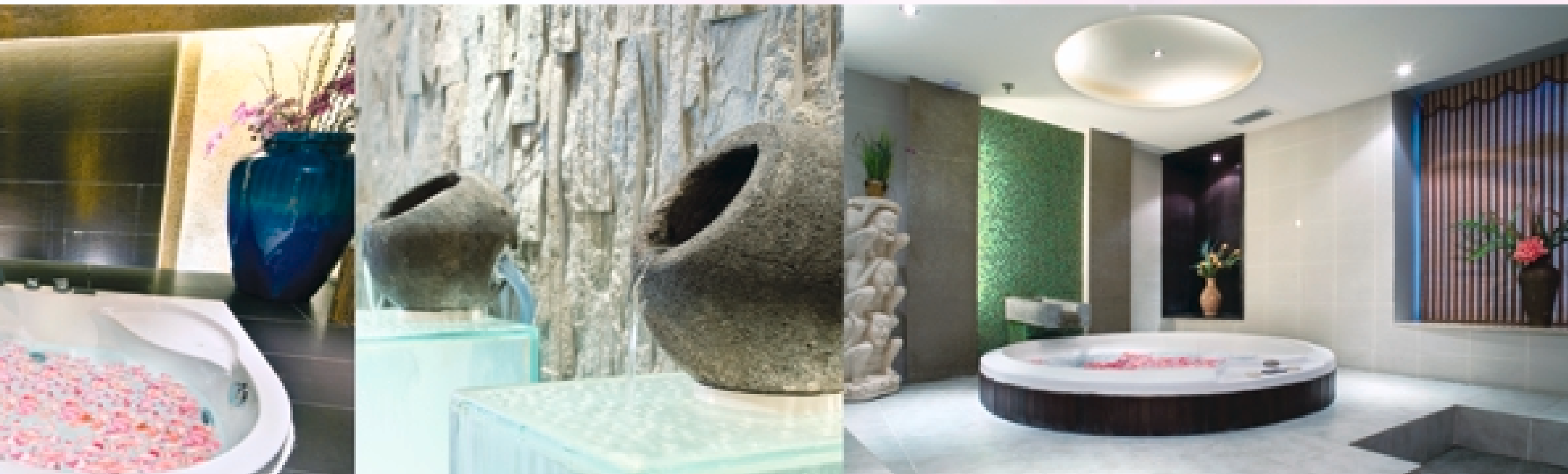
We have recorded a significant growth in sales in the male care segment during the year under review. The Group has launched the 'HEYMAN' brand. Since then, we have continued to provide skincare and bodyfirming products and services to meet the needs of our male customers. In November 2008, the Group launched a "HEYMAN Spokeperson Competition" in Whampoa Garden. The event included an introduction of our services, performances by pop singers and famous bands, and quiz shows. Thanks to our ad campaigns, the number of male customers jumped 26.5% to 14,300 as at 31 March 2009 from 11,300 a year earlier. The male care segment reported revenue of HK$37.5 million, representing a 38.7% increase from a year earlier.

The Group believes the male care segment has great business potential and it is expected to contribute more income to the Group going forward.

Continuous Expansion of Hong Kong Service Network

During the year under review, we have added four more service centres to our Hong Kong service network.

There are twelve new centres in Tsim Sha Tsui, Tai Po, Wan Chai, Mei Foo, Kwai Chung, Hunghom, Sai Kung, Ho Man Tin and Quarry Bay. Excluding seven stores that have been moved or closed, we have a total of 36 stores in Hong Kong. They have a total weighted average gross floor area of approximately 340,000 square feet. Our customer base grew 15.2% to 242,000 as at 31 March 2009 from 210,000 a year earlier. Around half of those customers are active customers. Revenue from Hong Kong declined 18.9% to HK$626.0 million from a year earlier (2008: HK$772.1 million).



Business Expansion in Mainland China

During the year under review, the Group added two new service centres in Mainland China, one each in Beijing and Shanghai. The centres offer comprehensive services including beauty and facial treatments, spa and massage, and slimming services, and are targeted at China's growing middle class who demand high quality beauty and wellness services. As at 31 March 2009, we have 10 service centres in Mainland China.

The total weighted average gross floor area of the 10 service centres in Mainland China is approximately 52,000 square feet. The number of customers jumped 90.9% to 21,000 from 31 March 2008. Revenue from Mainland China rose 157% to HK$35.7 million year on year (2008: HK$13.9 million).

Operational Highlights

	As at 31 March		
	2009	2008	**Growth**
No. of service centres	**46**	40	**+15.0%**
Hong Kong	**36**	32	**+12.5%**
Mainland China	**10**	8	**+25.0%**
Total weighted average gross floor area (square feet)	**392,000**	320,000	**+22.5%**
Hong Kong	**340,000**	298,000	**+14.1%**
Mainland China	**52,000**	22,000	**+136.4%**
No. of customers	**263,000**	221,000	**+19.0%**
Hong Kong	**242,000**	210,000	**+15.2%**
Mainland China	**21,000**	11,000	**+90.9%**
Number of staff	**1,781**	1,912	**-6.9%**
Frontline beauty staff	**1,565**	1,608	**-2.7%**
Back office staff	**216**	304	**-28.9%**

FINANCIAL REVIEW

Financial Performance

For the financial year ended 31 March 2009, the Group recorded a decline in turnover. For the year ended 31 March 2009, the Group recorded a total turnover of HK$661.8 million, representing a decrease of 15.8% as compared to HK$786.0 million in 2008. The profit for the year amounted to HK$17.2 million (2008: HK$226.8 million), representing a decline of 92.4%. Net profit margin for the year was dropped to 2.6% as compared to 28.9% in 2008. The Group's basic earnings per share for the year was HK2.38 cents as compared to HK31.34 cents in 2008.

Key Financial Figures

	As at 31 March		
(HK$ million)	**2009**	2008	**Change**
Cash and cash equivalents	**137.8**	349.8	**-60.6%**
Capital expenditure	**59.3**	157.7	**-62.4%**
Deferred revenue	**254.4**	265.0	**-4.0%**
Current ratio	**1.08**	1.34	**-19.4%**
Gearing ratio	**N/A**	N/A	**N/A**
Return on assets	**2.8%**	31.8%	**-29.0pt**
Return on equity	**5.8%**	60.5%	**-54.7pt**



Management Discussion and Analysis

Financial Highlights

	As at 31 March		
	2009	2008	
	HK$'000	HK$'000	**Change**
• Turnover	**661,795**	786,002	**-15.8%**
• Operating expenses	**(634,621)**	(516,799)	**+22.8%**
• Profit for the year	**17,225**	226,773	**-92.4%**
• Dividend per share (HK cents)	**4.30**	18.80	**-77.1%**
• Basic earnings per share (HK cents)	**2.38**	31.34	**-92.4%**
• Net profit margin	**2.6%**	28.9%	**-26.3pt**

Turnover

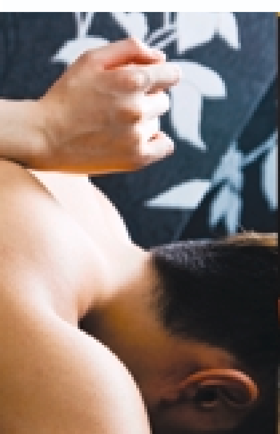
The Group recorded a total turnover of HK$661.8 million for the year ended 31 March 2009, representing a decrease of 15.8% as compared to HK$786.0 million in 2008. The decrease in turnover of approximately HK$124.2 million was mainly due to the decrease of sales of service to customers during the year under review.

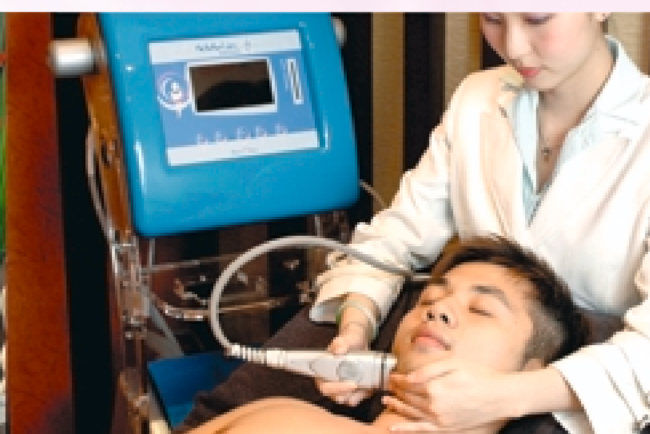
Segment Performance

The performance of our major service lines and product sales during the year 2009 is summarised as follows:

	2009		2008		
Sales Mix	**HK$'000**	**% to turnover**	HK$'000	% to turnover	**Change**
Beauty and facial	**329,840**	**49.9%**	358,516	45.6%	**-8.0%**
Spa and massage	**150,266**	**22.7%**	184,504	23.5%	**-18.6%**
Slimming	**115,971**	**17.5%**	164,675	21.0%	**-29.6%**
Fitness	**45,716**	**6.9%**	57,067	7.2%	**-19.9%**
Beauty products sales	**20,002**	**3.0%**	21,240	2.7%	**-5.8%**
Total turnover	**661,795**	**100.0%**	786,002	100.0%	**-15.8%**

The decrease in turnover of approximately HK$124.2 million during 2009 was mainly due to the decrease in the sales of beauty and facial treatment by HK$28.7 million, decrease in the sales of spa and massage by HK$34.2 million and in the sales of slimming services by HK$48.7 million, which represent sales decline of 8.0%, 18.6% and 29.6% respectively. Such decreases in sales of services were due to the global and local economic downturn commencing from the third quarter of the year 2008.





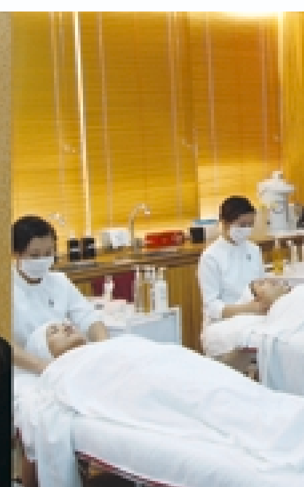
Operating Expenses

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

	2009		2008	
Items	**HK$'000**	**% to turnover**	HK$'000	% to turnover
Employee benefit expenses	**332,923**	**50.3%**	274,385	34.9%
Occupancy costs	**111,465**	**16.8%**	79,957	10.2%
Advertising costs	**28,177**	**4.3%**	23,781	3.0%
Depreciation and amortisation	**40,736**	**6.2%**	33,003	4.2%
Bank charges	**29,914**	**4.5%**	28,364	3.6%
Income tax expense	**4,990**	**0.8%**	47,060	6.0%

Due to the decease of turnover and increase of new service centres during the year ended 31 March 2009, the total expenses for employee benefit expenses, occupancy costs and advertising costs rose to 71.4% to turnover, a significant increase from last year's 48.1% to turnover.

As more service centres were opened in Hong Kong and Mainland China, more employees were employed during the year and the employee benefit expenses has increased by 21.3% to HK$332.9 million for the year under review. The Group's total employee benefit expenses rose at a level of 50.3% of total turnover. Commencing from the third quarter of the year 2008, the Group has introduced certain cost saving measures which reduced the total headcount from 1,912 as at 31 March 2008 to 1,781 as at 31 March 2009 (Hong Kong: 1,518; Mainland China: 263). For the year under review, occupancy costs increased by HK$31.5 million to HK$111.5 million, with an increment of 39.4%. The increase in occupancy costs was mainly due to the expansion of the total Group's service network both in Hong Kong and Mainland China before the global and local economic downturn. The number of service centres increased to 46 with total weighted average gross floor area of 392,000 square feet as at 31 March 2009, as compared to 40 service centres with 320,000 square feet as at 31 March 2008, representing an expansion of the floor area by 22.5%. The increase in occupancy costs was also caused by the rental increment in renewal of existing tenancies.

Net Profit and Margin

Net profit for the year decreased by 92.4% to HK$17.2 million for the year ended 31 March 2009 as compared to HK$226.8 million for the year ended 31 March 2008. Net profit margin was dropped to 2.6%. Excluding the Mainland China business, the Group achieved a net profit of HK$23.4 million with a net profit margin of 3.7%. Basic earnings per share was HK2.38 cents as compared to HK31.34 cents for last year.

Dividend Per Share

The Board do not recommend any final dividend to the shareholders of the Company for the year ended 31 March 2009. Together with the interim dividend of HK4.30 cents paid during the year, the total dividend for the year ended 31 March 2009 will be HK4.30 cents per share. This indicates a 180.7% dividend payout ratio of the current year profit.

Liquidity and Financial Position

The total equity of the Company as at 31 March 2009 was HK$298.9 million (2008: HK$374.7 million). The Group generally finances its operation with internal generated cash flows from operations. The Group continued to maintain a healthy financial position with cash and cash equivalents of approximately HK$137.8 million as at 31 March 2009 (2008: HK$349.8 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 2009, the Group had net current assets of approximately HK$24.9 million (2008: HK$115.2 million).

Capital Expenditure

The total capital expenditure incurred by the Group during the year ended 31 March 2009 amounted to HK$59.3 million (2008 : HK$157.7 million), which was mainly used for the additions of leasehold improvements, equipment and machinery in connection with the expansion of its service network in Hong Kong and Mainland China.

Management Discussion and Analysis

Deferred Revenue

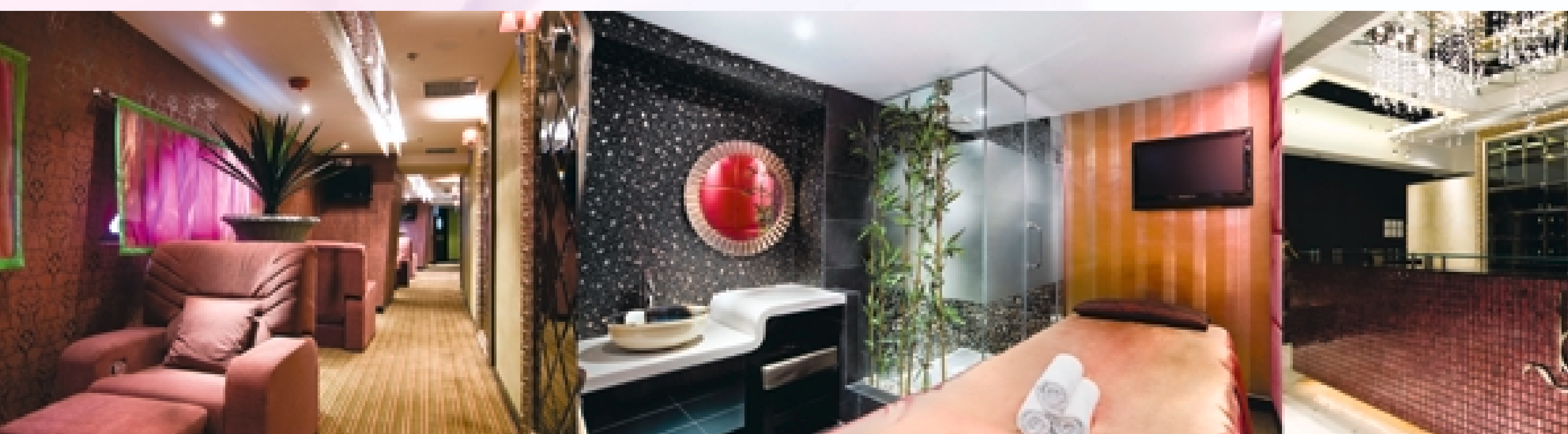
The movement of the deferred revenue for the year ended 31 March 2009 is summarised as follows:

	2009 HK$'000	2008 HK$'000	**Change**
Beginning of the year	**265,028**	420,007	**-36.9%**
Exchange differences	**163**	(728)	**+122.4%**
Receipts during the year	**631,016**	610,511	**+3.4%**
Sales of beauty and wellness services	**(621,686)**	(733,296)	**-15.2%**
Sales recognised upon expiring prepaid beauty packages	**(20,107)**	(31,466)	**-36.1%**
End of the year	**254,414**	265,028	**-4.0%**

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 3.4% to HK$631.0 million as compared to HK$610.5 million in 2008. Due to the global and local economic downturn commencing from the third quarter of 2008, the undermined consumer sentiment seriously affected the customers buying attitude, resulting in decrease of the deferred revenue by 4.0% to HK$254.4 million as at 31 March 2009 as compared to the balance of HK$265.0 million as at 31 March 2008.

Contingent Liabilities and Capital Commitment

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 had capital commitment of approximately HK$120.7 million as at 31 March 2009 (2008: HK$8.3 million) mainly for the acquisition of Tsim Sha Tsui's property. The acquisition has been completed on 30 June 2009. The acquisition was financed by internal resources and a bridging loan of HK$118.0 million ("Bridging Loan") granted by Ms. Tsang Yue, Joyce, the beneficial shareholder of the Company. Upon the completion of the acquisition, the Group will obtain loan facilities from a licensed bank for repayment of the Bridging Loan.



Charges on Assets

As at 31 March 2009, the Group had pledged bank deposits of HK$9.4 million (2008: HK$9.3 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 except for the acquisition of a property located in Tsim Sha Tsui as stated in the section headed "Contingent Liabilities and Capital Commitment".

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 2009, the Group had a total work force of 1,781 employees (31 March 2008: 1,912 employees), including 1,565 frontline beauty employees who were located at the Group's 46 service centres and 216 back-office employees who were based in office. Of which, 1,518 employees were employed in Hong Kong while 263 employees worked in Mainland China. The total employee benefit expenses, including directors' emoluments for the year under review, amounted to HK$332.9 million as compared to HK$274.4 million in 2008.

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 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 2009, 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 Salon, we are committed to doing our best to meet the needs of our customers.

Continuous Expansion of Men's Care Service

In spite of the economic downturn in the second half of the financial year, the men's care segment performed well, registering a growth of 38.7% over the year. With the increased demand for men's care service, the Directors believe there is strong potential in the segment. In the coming years, the Group will allocate more resources to promote and market the service in this area. The Directors are confident that it will be a significant source of revenue for the Group in the future.

Expand Service in "be Beauty Shop"

Apart from providing various types of beauty and wellness products under our own-label, 'be Beauty Shop' also provides beauty services such as 'Be Nail'. Surveys show Hong Kong females enjoy pampering their fingernails. The Directors believe that the demand for nail service will increase in the coming years. In the meantime, the Group will continue to look out for new services to meet the needs of customers.

Promotion of "SooYoga" Brand

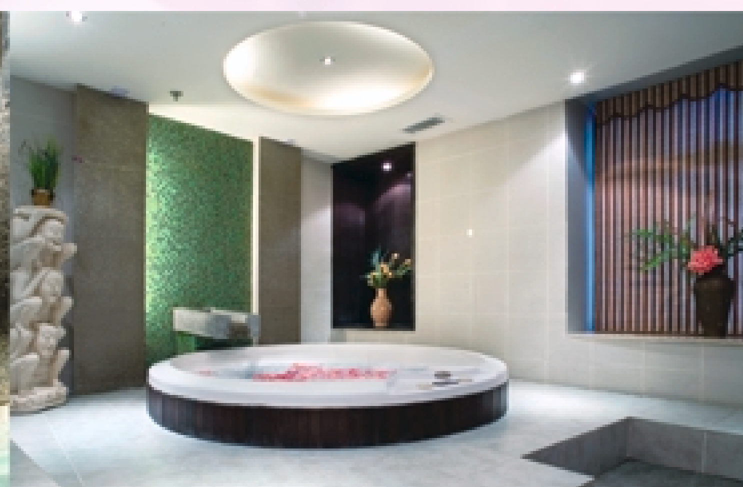
A growing awareness for health among the people of Hong Kong has driven more customers to practice yoga. To meet that demand, the Group plans to recruit more professional trainers and offer more yoga and dance classes in the future.

Consolidation of Service Centres

The operating environment for the year under review, particularly in the second half of the year, was difficult as a result of the economic slowdown, weak consumption and higher rents. To cope, the Group will consolidate its service centres in Hong Kong in order to manage its resources more effectively. As a result, stores that underperform will be closed down. Any expansion plans will continue to be made prudently next year.

Launching Franchise Business in China

In view of the growing demand for beauty and wellness services in Mainland China, the Group has made plans to launch a franchise business targeting at people who are interested in investing in the beauty industry. We will provide support services, from the shop renovation to staff training and product supplies. The Directors believe that, with the Group's reputation and expertise in the industry, the franchisees will be able to operate the business successfully. It is also the most effective way to expand the Group's market share in Mainland China. With the above development plans, we are optimistic that we can continue to expand our customer base. The Directors are ready to tackle the challenges ahead. Priorities will be given to sustaining the core beauty and wellness services operation. At the same time, we will continue to maintain a healthy cash position for the Group.



Investor Relations and Financial Calendar

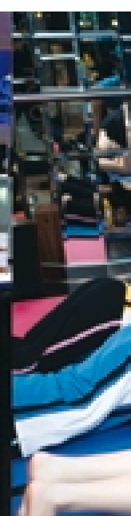
The Group has placed great effort in enhancing corporate transparency and maintaining continued communications with both the investment community and media since our public listing in February 2006. Our efforts in communicating to the investment community the Group's business strategies and operations 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 2008/09, 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

2008 Final and Interim Dividends	HK18.8 cents
2009 Interim Dividend	HK4.30 cents

Financial Calendar 2009

Announcement of 2009 interim results	17 December 2008
Announcement of 2009 final results	17 July 2009
Closure of Register of Members	19 to 21 August 2009, both days inclusive
2009 Annual General Meeting	21 August 2009
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.

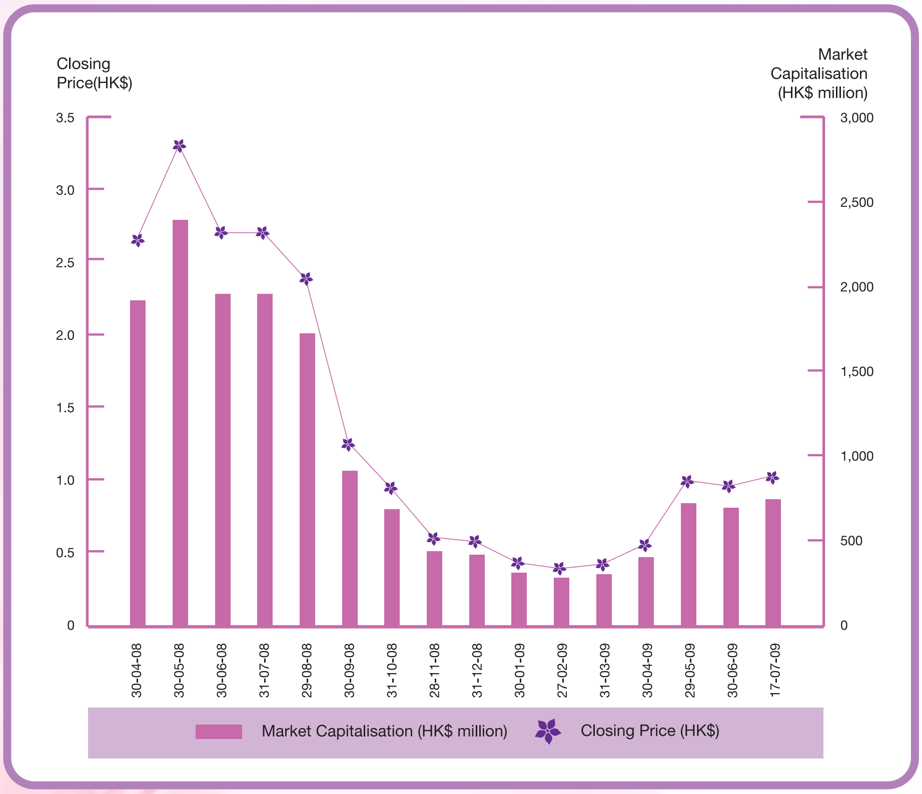
Issued ordinary shares as at 31 March 2009:	723,520,000 shares
Board lot:	4,000 shares
Nominal value:	HK$0.1 per share
Market Capitalisation as at 31 March 2009:	HK$307 million (based on the closing price as at 31 March 2009, being the last trading date of the year, of HK$0.425)

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 2009

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:

Investor Relations Department
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

Men's Grooming

Be Chic & Stylish

Board of Directors and Senior Management

Executive Directors

Mr. Lee Soo Ghee

Aged 34, is the Chairperson, the Chief Executive Officer and an executive director of the Group. Mr. Lee is responsible for overall management, strategic planning and development, as well as formulation of the Group's policies and business strategy, 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 Yue, Joyce, the founder and substantial shareholder of the Group.

Ms. Yuen Siu Ping

Aged 34, 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 16 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 35, 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 24, 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 Yue, Joyce, the founder and substantial shareholder of the Group.

Ms. Mok Hin Yuk

Aged 46, 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.

Independent Non-executive Directors

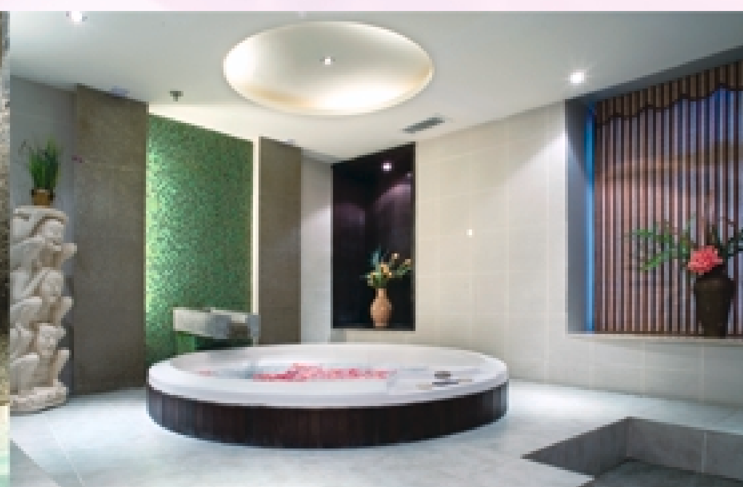
Mr. Cheng Kai Tai, Allen

Aged 45, 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 Amax Entertainment Holdings Limited and 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 43, 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.





Board of Directors and Senior Management

Mr. Soo SK Sean

Aged 37, 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.

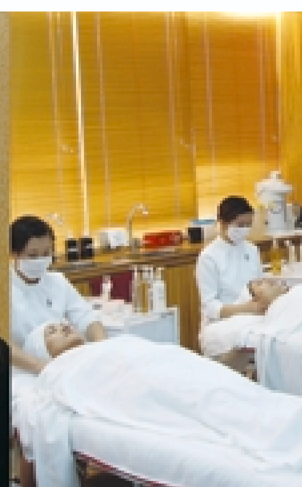
Senior Management

Mr. Leung Man Kit, Jonathan

Aged 32, is the Internal Controller of the Group. He is responsible for overseeing the internal control, business development, taxation and monitoring financial reporting of the Group. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants as well as an associate of the Association of International Accountants and also an associate of the Taxation Institute of Hong Kong. He has over 8 years of audit and tax experience from various listed groups and private companies in Hong Kong. Mr. Leung joined the Group in September 2008.

Mr. Tung Kwok Lui

Aged 36, is the Legal Consultant and Company Secretary 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.



Ms. Yeung See Man

Aged 35, is the Financial Controller 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 member of The Institute of Chartered Accountants in England and Wales as well as a fellow member of the Hong Kong Institute of Certified Public Accountants. She is also a fellow member of the Association of Chartered Certified Accountants. Ms. Yeung has over six years of audit experience with Deloitte Touche Tohmatsu. She joined the Group in March 2004.

Mr. Wong Shu Pui

Aged 42, 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 37, 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 Wai Lok

Aged 37, is the Finance Manager-Treasury Management of the Group. Mr. Chan obtained a Bachelor Degree of Arts in Accountancy from the Hong Kong Polytechnic University in 1993. He is responsible for providing advice and support to the Group's daily accounting operations and company secretarial matters. He 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 member of the Association of Chartered Certified Accountants. Mr. Chan is also an Associate of the Hong Kong Institute of Chartered Secretaries and also an Associate of the Institute of Chartered Secretaries and Administrators. He has over 10 years experience in audit, accounting, taxation and company secretarial matters from KPMG, Deloitte Touche Tohmatsu and Ernst & Young, as well as a listed company in Hong Kong. He joined the Group in September 2008.

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 2009.

Corporate Governance Practice

The Board is in the opinion that the Company has applied the Code for the year ended 31 March 2009, except for the following deviations:

Code Provision A.2.1. stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. As of 31 March 2009, Mr. Lee Soo Ghee (formerly Ms. Tsang Yue, Joyce who resigned as the chairperson and chief executive officer of the Company on 26 November 2008) is currently both the Chairperson and Chief Executive Officer of the Company.

Board of Directors

As of 31 March 2009, the Board consisted of five executive Directors and three Independent Non-executive Directors. All 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 2009 (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 thirteen full board meetings.

The members of the Board for the year ended 31 March 2009 and the attendance of each member for the aforesaid meetings are as follows:

	Number of attendance
Executive Directors	
Mr. Lee Soo Ghee (appointed and re-designated as Chairperson and Chief Executive Officer on 26 November 2008)	9/13
Ms. Yuen Siu Ping	10/13
Mr. Yip Kai Wing	11/13
Mr. Kwong Chi Ching	10/13
Ms. Mok Hin Yuk	9/13
Ms. Tsang Yue, Joyce (Chairperson and Chief Executive Officer who resigned on 26 November 2008)	6/10
Independent Non-executive Directors	
Mr. Cheng Kai Tai, Allen	13/13
Mr. Yip Ki Chi, Luke (appointed on 24 April 2008)	11/13
Mr. Soo SK Sean (appointed on 24 April 2008)	11/13
Mr. Wong See Hong (resigned on 9 May 2008)	2/2
Mr. Yu How Yuen (resigned on 30 May 2008)	2/2

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 42 to 45 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 Chairman and Chief Executive Officer of the Company, is the spouse of Ms. Tsang Yue, Joyce (a substantial shareholder 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 retirement. All the Independent Non-executive Directors have been appointed for a term of three years commencing from 22 August 2008. All Directors, including Non-executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after their appointment and shall then be eligible for re-election. Moreover, each Non-Executive Directors will hold office for a specific term expiring on the earlier of either (1) the conclusion of the annual general meeting of the Company on the year of the third anniversary of the appointment or re-election of that director or (2) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that director and in any event, subject to earlier determination in accordance with the Company and/or applicable laws and regulations.

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.

Chairperson and Chief Executive Officer

Mr. Lee Soo Ghee 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. As of 31 March 2009, the Remuneration Committee comprised the Chairperson of the Group, Mr. Lee Soo Ghee and three Independent Non-executive Directors, Mr. Cheng Kai Tai, Allen, Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean. Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean were appointed as members of the Remuneration Committee on 24 April 2008 and Mr. Lee Soo Ghee was appointed as member of the Remuneration Comittee on 26 November 2008. Mr. Wong See Hong, Mr. Yu How Yuen and Ms. Tsang Yue resigned as members of the Remuneration Committee on 9 May 2008, 30 May 2008 and 26 November 2008 respectively and Ms. Tsang Yue, Joyce was the Chairman of the Remuneration Committee until her resignation on 26 November 2008. Mr. Lee Soo Ghee is the Chairperson of the Remuneration Committee since his appointment on 26 November 2008.

The Remuneration Committee shall meet at least once a year. The Remuneration Committee has held one meeting during the year ended 31 March 2009, which was attended by all members as follows:

Directors	Number of attendance
Mr. Cheng Kai Tai, Allen	1/1
Mr. Lee Soo Ghee (appointed and re-designated on 26 November 2008)	N/A
Mr. Yip Ki Chi, Luke (appointed on 24 April 2008)	1/1
Mr. Soo SK Sean (appointed on 24 April 2008)	1/1
Mr. Wong See Hong (resigned on 9 May 2008)	N/A
Mr. Yu How Yuen (resigned on 30 May 2008)	N/A
Ms. Tsang Yue, Joyce (resigned on 26 November 2008)	1/1

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. As of 31 March 2009, the Nomination Committee comprised the Chairperson of the Group, Mr. Lee Soo Ghee and three Independent Non-executive Directors, and Mr. Cheng Kai Tai, Allen, Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean. Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean were appointed as members of the Nomination Committee on 24 April 2008, and Mr. Lee Soo Ghee was appointed as members of the Nomination Committee on 26 November 2008. Mr. Wong See Hong, Mr. Yu How Yuen and Ms. Tsang Yue, Joyce resigned as members of the Nomination Committee on 9 May 2008, 30 May 2008 and 26 November 2008 respectively and Ms. Tsang Yue, Joyce was the Chairman of the Nomination Committee until her resignation on 26 November 2008. Mr. Lee Soo Ghee is the Chairperson of the Nomination committee since his appointment on 26 November 2008.

The Nomination Committee shall meet at least once a year. The attendance of each member of the Nomination Committee is set out as follows:

Directors	Number of attendance
Mr. Cheng Kai Tai, Allen	2/2
Mr. Lee Soo Ghee (appointed and designated on 26 November 2008)	N/A
Mr. Yip Ki Chi, Luke (appointed on 24 April 2008)	1/1
Mr. Soo SK Sean (appointed on 24 April 2008)	1/1
Mr. Wong See Hong (resigned on 9 May 2008)	1/1
Mr. Yu How Yuen (resigned on 30 May 2008)	1/1
Ms. Tsang Yue, Joyce (resigned on 26 November 2008)	2/2

Auditors' Remuneration

During the year ended 31 March 2009, 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 2009	2,763

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. As of 31 March 2009, the Audit Committee has three members comprising the Company's three Independent Non-executive Directors, namely Mr. Cheng Kai Tai, Allen, Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean. 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 3 meetings during the year ended 31 March 2009 and the attendance of each member for the aforesaid meetings are as follows:

	Number of attendance
Independent Non-executive Directors	
Mr. Cheng Kai Tai, Allen	3/3
Mr. Yip Ki Chi, Luke (appointed on 24 April 2008)	3/3
Mr. Soo SK Sean (appointed on 24 April 2008)	3/3
Mr. Wong See Hong (resigned on 9 May 2008)	N/A
Mr. Yu How Yuen (resigned on 30 May 2008)	N/A

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

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

During the year ended 31 March 2009, the Audit Committee held a meeting with the Company's external auditors, PricewaterhouseCoopers, to discuss any areas of concerns during the audit, without the presence of the management of the Company. The Audit Committee held another meeting with PricewaterhouseCoopers on 17 December 2008 to discuss the unaudited condensed financial statements of the Company for the six months ended 30 September 2008. The Audit Committee also held meeting with PricewaterhouseCoopers, to discuss the audit plan of the Group for the year ended 31 March 2009, without the presence of the management of the Company.

The final results of the Group for the year ended 31 March 2009 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 2009, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the year ended 31 March 2009 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 2009.

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.

Voting by Poll

Procedures for demanding a poll were set forth in a circular accompanying the notice of general meetings. At the commencement of each general meeting, the chairman of the meeting had explained the procedures for demanding a poll to the shareholders and the shareholders were allowed to raise any question concerning the poll procedures. At each of the meetings, separate resolutions were proposed by the chairman of the meeting and put forward to the shareholders for voting.

With the implementation of certain amendments to the Listing Rules effective on 1st January, 2009, the voting at all general meetings of a listed company should be conducted by poll. It is believed that the voting by poll can fully reflect the proprietary rights of shareholders and is a fairer method of determination for the shareholders than voting by a show of hands. The Company will procure the chairman of general meeting to demand for voting by poll on every general meeting to comply with the newly amended Listing Rules.

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 2009.

Principal Activities and Segment Analysis of Operations

As at 31 March 2009, 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 69. The Board do not recommend any final dividend to the Shareholders for the year ended 31 March 2009. Together with interim dividend of HK4.30 cents paid during the year, the total dividend for the year ended 31 March 2009 will be HK4.30 cents per share, amounting to approximately HK$31.1 million to the Shareholders.

Reserves

Details of movements in reserves of the Group and the Company during the year are set out in Note 23 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 2009, the Company's reserves available for distribution to Shareholders amounted in total to approximately HK$314 million (2008: HK$203 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 120.

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 22 to the consolidated financial statements.

Pre-emptive Rights

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

Charitable Contributions

During the year, the Group made charitable donations totaling HK$200,000 (2008: HK$400,000).

Directors

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

Executive Directors:

Mr. Lee Soo Ghee
Ms. Yuen Siu Ping
Mr. Yip Kai Wing
Mr. Kwong Chi Ching
Ms. Mok Hin Yuk
Ms. Tsang Yue, Joyce (resigned on 26 November 2008)

Independent Non-executive Directors:

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

Three executive Directors, Mr. Lee Soo Ghee, Mr. Yip Kai Wing and Mr. Kwong Chi Ching 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.

Directors' Service Contracts

Each of Mr. Lee Soo Ghee, Ms. Yuen Siu Ping and Mr. Yip Kai Wing had 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. There is no service contract entered between the Company and Mr. Lee Soo Ghee, Ms. Yuen Siu Ping and Mr. Yip Kai Wing respectively after their service contracts dated 9 February 2006 had expired on 8 February 2009. 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 all independent non-executive Director have been appointed for a term of three years commencing from 22 August 2008.

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 28 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 2009. 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 2009, 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)*
Mr. Lee Soo Ghee	Beneficial owner	650,000	1,350,000	2,000,000	0.28%
	Interest of spouse	475,368,000 *(Note 3)*	1,350,000	476,718,000	65.89%
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 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 2009, i.e. 723,520,000 Shares.

3. Mr. Lee Soo Ghee is the spouse of Ms. Tsang Yue, Joyce and is deemed to be interested in the Shares in which Ms. Tsang Yue, Joyce is deemed or taken to be interested for the purpose of the SFO.

Long positions in shares of the associated corporations of the Company

Save as disclosed above, none of the Directors or chief executives of the Company had, at 31 March 2009, 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 2009, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

Name	**Capacity**	**Number of Shares/underlying Shares interested**	**Approximate percentage of issued Shares** *(Note 1)*
Ms. Tsang Yue, Joyce *(Note 2)*	Interests of controlled corporations	468,000,000	64.68%
	Beneficial owner	8,718,000	1.20%
	Interest of spouse	2,000,000	0.28%
Silver Compass Holdings Corp.	Beneficial owner	367,200,000 *(Note 3)*	50.75%
Silver Hendon Enterprises Corp.	Beneficial owner	100,800,000 *(Note 3)*	13.93%

Notes:

1. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2009, i.e. 723,520,000 Shares.
2. Ms. Tsang Yue, Joyce has resigned as an executive director on 26 November 2008.
3. 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 2009, 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

On 20 January 2006, the Company has established a share option scheme (the "Share Option Scheme") whereby the Board is authorized to, grant options to Directors and employees of the Group.

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 period of four to nine years commencing from the date of grant. The life of options is ten years.

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

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give employees and directors 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) and director 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 2008	Reclassification	No. of options cancelled/ lapsed during the year	No. of options as at 31 March 2009	Date of grant	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued shares *(Note 1)*
Directors								
Ms. Tsang Yue, Joyce *(Note 2)*	337,500	(337,500)	–	–	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	N/A
Ms. Tsang Yue, Joyce *(Note 2)*	472,500	(472,500)	–	–	23 October 2006	23 October 2014 to 22 October 2016	HK$1.33	N/A
Ms. Tsang Yue, Joyce *(Note 2)*	540,000	(540,000)	–	–	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	N/A
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. 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 2008	Reclassification	No. of options cancelled/ lapsed during the year	No. of options as at 31 March 2009	Date of grant	Period during which options are exercisable	Exercise price per share	Approximate percentage of issued shares *(Note 1)*
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%
Others	2,075,000	337,500	(220,000)	2,192,500	23 October 2006	23 October 2010 to 22 October 2016	HK$1.33	0.30%
Others	2,905,000	472,500	(308,000)	3,069,500	23 October 2006	23 October 2014 to 22 October 2016	HK$1.33	0.42%
Others	3,320,000	540,000	(352,000)	3,508,000	23 October 2006	23 October 2015 to 22 October 2016	HK$1.33	0.48%
Total	**13,200,000**	**–**	**(880,000)**	**12,320,000**				

Notes:

1 The relevant percentages are calculated by reference to the shares in issue on 31 March 2009, i.e. 723,520,000 shares.

2 Resigned on 26 November 2008

Information on the accounting policy for options granted under the Share Option Scheme and the fair value of the options is provided in Note 22 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 2009, purchases from the Group's five largest suppliers accounted for 49% (2008: 30%) of the total purchases for the year and purchases from the largest supplier included therein amounted to 17% (2008: 9%).

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 2009:

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, Hong Kong

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 ending on 17 September 2009.

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 2009 (2008: HK$1,680,000). The annual rental is calculated based on a monthly rental of HK$140,000.

The terms of the Kam Shan Tenancy Agreement were arrived at after arm's length negotiation and on normal commercial terms. The rental of the Kam Shan 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.

Tenancy agreement of Nos. 297/303 & 307/313 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong

On 1 October 2008, Golden National 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, entered into a tenancy agreement (the "Sha Tsui Road Tenancy Agreement") pursuant to which Modern Beauty Salon (Hong Kong) Limited leased from Golden National Limited, the premises at Chung On Building, Nos. 297/303 & 307/313 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong as a beauty and wellness service centre of the Group. The duration of the Sha Tsui Road Tenancy Agreement is three years ending on 30 September 2011.

The rental paid by the Group in relation to the premises amounted to HK$4,800,000 for the year ended 31 March 2009 (2008: HK$ Nil). The rental is calculated based on a monthly rental of HK$800,000.

The terms of the Sha Tsui Road Tenancy Agreement were arrived at after arm's length negotiation and on normal commercial terms. The rental of the Sha Tsui Road Tenancy Agreement was determined by reference to the prevailing market rental value of the property.

The above disclosure relating to the Sha Tsui Road Tenancy Agreement is made in accordance with Rule 14A.46 of the Listing Rule.

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 Trademark Licensing Agreement was expired on 31 March 2008.

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

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 Road Tenancy Agreement") pursuant to which MOH Limited leased from Chain Tech International Limited, the premises at 1st Floor, No. 46 Carnarvon Road, Tsimshatsui, Kowloon, Hong Kong as a service centre of the Group. The Carnarvon Road Tenancy Agreement was expired on 31 December 2008.

The rental paid by the Group in relation to the premises under the Carnarvon Road Tenancy Agreement amounted to HK$324,000 for the year ended 31 March 2009 (2008: HK$432,000).

On 1 January 2009, Chain Tech International Limited and Modern Beauty Salon (Hong Kong) Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "New Carnarvon Road Tenancy Agreement") pursuant to which Modern Beauty Salon (Hong Kong) Limited leased from Chain Tech International Limited, the premises at 1st Floor, No. 46 Carnarvon Road, Tsimshatsui, Kowloon, Hong Kong as a service centre of the Group. The duration of the New Carnarvon Road Tenancy Agreement is three years ending on 31 December 2011.

The rental paid by the Group in relation to the premises under the New Carnarvon Road Tenancy Agreement amounted to HK$84,000 for the year ended 31 March 2009 (2008: Nil).

Tenancy agreement of 1st Floor together with the landing on the Ground Floor and the Staircase appertaining thereto, Peace Tower, No. 6 Peace Avenue, Kowloon, Hong Kong

On 10 October 2008, All Link International 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, entered into a tenancy agreement (the "Peace Avenue Tenancy Agreement") pursuant to which Modern Beauty Salon (HK) Limited leased from All Link International Limited, the premises at 1st Floor together with the landing on the Ground Floor and the Staircase appertaining thereto, Peace Tower, No. 6 Peace Avenue, Kowloon, Hong Kong as a service centre of the Group. The duration of the Peace Avenue Tenancy Agreement is three years ending on 9 October 2011.

The rental paid by the Group in relation to the premises with respect of the Peace Avenue Tenancy Agreement amounted to HK$456,774 for the year ended 31 March 2009 (2008: HK$Nil).

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 Kam Shan Tenancy Agreement and Sha Tsui Road Tenancy Agreement did not exceed the relevant annual limits as set out in the announcements of the Company on 15 September 2006 and on 30 September 2008 respectively.

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 22 August 2008, 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 2009, 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 2009 has been reviewed by the Audit Committee. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 46 to 52.

Auditors

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

By order of the Board
Lee Soo Ghee
Chairperson and Chief Executive Officer

Hong Kong, 17 July 2009

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

We have audited the consolidated financial statements of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 69 to 117, which comprise the consolidated and company balance sheets as at 31 March 2009, 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, in accordance with section 141 of the Hong Kong Companies Ordinance 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.

Independent Auditor's Report

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 2009 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 requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 July 2009

Consolidated Income Statement

For the year ended 31 March 2009

	Note	2009 HK$'000	2008 HK$'000
Turnover	5	**661,795**	786,002
Other gains – net	6	**11,392**	2,581
Cost of inventories sold		**(20,258)**	(21,618)
Advertising costs		**(28,177)**	(23,781)
Building management fee		**(21,907)**	(16,840)
Bank charges		**(29,914)**	(28,364)
Employee benefit expense	7	**(332,923)**	(274,385)
Depreciation and amortisation		**(40,736)**	(33,003)
Occupancy costs		**(111,465)**	(79,957)
Other operating expenses		**(69,499)**	(60,469)
Operating profit	8	**18,308**	250,166
Interest income		**3,907**	23,667
Profit before income tax		**22,215**	273,833
Income tax expense	9	**(4,990)**	(47,060)
Profit for the year		**17,225**	226,773
Earnings per share (HK cents)			
– Basic	10	**2.38**	31.34
– Diluted	10	**2.37**	30.95
Dividends	12	**31,111**	136,022

The notes on pages 75 to 117 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**127,897**	109,456
Leasehold land prepayments	14	**115,884**	118,088
Trade and other receivables, deposits and prepayments	17	**21,578**	25,710
Deferred income tax assets	18	**9,701**	6,477
		275,060	259,731
Current assets			
Inventories	19	**9,403**	12,583
Trade and other receivables, deposits and prepayments	17	**138,180**	72,514
Current income tax assets		**39,866**	9,462
Pledged bank deposits	20	**9,412**	9,264
Cash and cash equivalents	21	**137,826**	349,811
		334,687	453,634
Total assets		**609,747**	713,365
EQUITY			
Capital and reserves			
Share capital	22	**72,352**	72,352
Share premium and reserves	23	**226,560**	302,327
Total equity		**298,912**	374,679

	Note	2009 HK$'000	2008 HK$'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	18	**1,055**	209
Current liabilities			
Trade and other payables, deposits received and accrued expenses	24	**53,556**	47,489
Deferred revenue	25	**254,414**	265,028
Current income tax liabilities		**1,810**	25,960
		309,780	338,477
Total liabilities		**310,835**	338,686
Total equity and liabilities		**609,747**	713,365
Net current assets		**24,907**	115,157
Total assets less current liabilities		**299,967**	374,888

On behalf of the Board

Lee Soo Ghee
Director

Yip Kai Wing
Director

The notes on pages 75 to 117 form an integral part of these financial statements.

Balance Sheet

As at 31 March 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	15	**101,076**	101,076
Current assets			
Amounts due from subsidiaries	16	**276,730**	174,510
Cash and cash equivalents	21	**8,182**	163
		284,912	174,673
Total assets		**385,988**	275,749
EQUITY			
Capital and reserves			
Share capital	22	**72,352**	72,352
Share premium and reserves	23	**313,634**	203,396
Total equity		**385,986**	275,748
LIABILITIES			
Current liabilities			
Trade and other payables, deposits received and accrued expenses		**2**	1
Total equity and liabilities		**385,988**	275,749
Net current assets		**284,910**	174,672
Total assets less current liabilities		**385,986**	275,748

On behalf of the Board

Lee Soo Ghee
Director

Yip Kai Wing
Director

The notes on pages 75 to 117 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2009

	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 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 final 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
Balance at 1 April 2008	72,352	146,875	2,053	(53,982)	1,684	205,697	374,679
Employee share option reserve							
– value of employee services	—	—	1,427	—	—	—	1,427
Lapse of share option	—	—	(232)	—	—	232	—
Profit for the year	—	—	—	—	—	17,225	17,225
2008 final dividend paid	—	—	—	—	—	(63,670)	(63,670)
2009 interim dividend paid	—	—	—	—	—	(31,111)	(31,111)
Exchange differences	—	—	—	—	362	—	362
Balance at 31 March 2009	**72,352**	**146,875**	**3,248**	**(53,982)**	**2,046**	**128,373**	**298,912**

The notes on pages 75 to 117 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2009

	Note	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Profit before income tax		**22,215**	273,833
Adjustments for:			
– Depreciation of property, plant and equipment	13	**38,532**	31,751
– Amortisation of leasehold land prepayments	14	**2,204**	1,252
– Interest income		**(3,907)**	(23,667)
– Share option expenses		**1,427**	1,623
– Loss/(gain) on disposal of property, plant and equipment	6 & 8	**1,561**	(1,252)
Changes in working capital:		**62,032**	283,540
– Inventories		**3,180**	(1,965)
– Trade and other receivables, deposits and prepayments		**(61,534)**	(33,180)
– Trade and other payables, deposits received and accrued expenses		**6,067**	6,375
– Deferred revenue		**(10,777)**	(154,251)
Cash (used in)/generated from operations		**(1,032)**	100,519
Interest received		**3,907**	23,667
Income tax paid		**(61,919)**	(41,403)
Net cash (used in)/generated from operating activities		**(59,044)**	82,783
Cash flows from investing activities			
Purchase of property, plant and equipment	13	**(59,265)**	(65,017)
Purchase of leasehold land	14	**—**	(92,679)
Proceeds from disposal of property, plant and equipment		**822**	2,710
(Increase)/decrease in pledged bank deposits		**(148)**	1,443
Net cash used in investing activities		**(58,591)**	(153,543)
Cash flows from financing activities			
Proceeds from issue of shares	22	**—**	75
Dividends paid	12	**(94,781)**	(164,963)
Net cash used in financing activities		**(94,781)**	(164,888)
Net decrease in cash and cash equivalents		**(212,416)**	(235,648)
Cash and cash equivalents at beginning of the year		**349,811**	584,953
Exchange differences		**431**	506
Cash and cash equivalents at end of the year	21	**137,826**	349,811

The notes on pages 75 to 117 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 SCHC as being the immediate and ultimate holding company. Both SCHC and SHEC are wholly owned by Ms. Tsang Yue, Joyce, who is regarded as the ultimate controlling party.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated.

The consolidated financial statements have been approved for issue by the Board of Directors on 17 July 2009.

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 years 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 (HKICPA). 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.

(a) Interpretation effective for the year ended 31 March 2009 and relevant to the Group's operations

- 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.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Amendment and interpretations effective for the year ended 31 March 2009 but not relevant to the Group's operations

The following amendment and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are currently not relevant to the Group's operations:

- HKAS 39, 'Financial instruments: Recognition and measurement'
- HK(IFRIC) – Int 12, 'Service concession arrangements'
- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

(c) Standards, amendments 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 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective for annual period starting from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 April 2009. It is likely that both the consolidated income statement and consolidated statement of comprehensive income will be presented as performance statements.
- HKAS 23 (Revised), 'Borrowing costs' (effective for annual period starting 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) retrospectively from 1 April 2009 but is currently not applicable to the Group as there are no qualifying assets.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 April 2010.

- HKFRS 2 (Amendment), 'Share-based payment' (effective for annual period starting from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. 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.

- HKFRS 3 (Revised), 'Business combinations' (effective for annual period starting from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are to be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 8, 'Operating segments' (effective for annual period starting 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, but it is not expected to have a material impact on the number of reportable segments as well as the manner in which the segments are reported.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective for annual period starting 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. The Group will apply HK(IFRIC) – Int 13 from 1 April 2009. Management is now assessing the impact of adoption of this interpretation, but it is not expected to have any significant impact on the Group's financial statements.

- HK(IFRIC) – Int 16 , 'Hedges of a net investment in a foreign operation' (effective for annual period starting from 1 October 2008). HK(IFRIC) – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC) – Int 16 from 1 April 2009, but it is not expected to have any impact on the Group's financial statements.

- HKICPA's improvements to HKFRS published in October 2008

  — HKAS 1 (Amendment), 'Presentation of financial statements' (effective for annual period starting from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 April 2009, but it is not expected to have any impact on the Group's financial statements.

  — HKAS 23 (Amendment), 'Borrowing costs' (effective for annual period starting from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively from 1 April 2009, but it is not expected to have any impact on the Group's financial statements.

  — HKAS 36 (Amendment), 'Impairment of assets' (effective for annual period starting from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 April 2009.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  — There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

(d) Amendments and interpretations to existing standards which are not yet effective and not relevant for the Group's operations

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are currently not relevant for the Group's operations:

- HKAS 19 (Amendment), 'Employee benefits' (effective for annual period starting from 1 January 2009).

- HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective for annual period starting from 1 January 2009.

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective for annual period starting from 1 January 2009).

- HKAS 38 (Amendment), 'Intangible assets' (effective for annual period starting from 1 January 2009).

- HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible hedged items' (effective for annual period starting from 1 July 2009).

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009).

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective for annual period starting from 1 July 2009).

- HK(IFRIC) – Int 15, 'Agreements for construction of real estates' (effective for annual period starting from 1 January 2009).

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Amendments and interpretations to existing standards which are not yet effective and not relevant for the Group's operations *(Continued)*

- HK(IFRIC) – Int 17 – 'Distributions of non-cash assets to owners' (effective for annual period starting from 1 July 2009).

- HK(IFRIC) – Int 18 'Transfers of assets from customers' (effective for transfers on or after 1 July 2009).

- HKICPA's improvements to HKFRS published in October 2008

  — HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective for annual period starting from 1 January 2009).

  — HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective for annual period starting from 1 January 2009).

  — HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective for annual period starting from 1 January 2009).

  — HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective for annual period starting from 1 January 2009).

  — HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective for annual period starting from 1 January 2009).

  — HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective for annual period starting from 1 January 2009).

  — HKAS 38 (Amendment), 'Intangible assets' (effective for annual period starting from 1 January 2009).

  — HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective for annual period starting from 1 January 2009).

  — HKAS 41 (Amendment), 'Agriculture' (effective for annual period starting from 1 January 2009).

  — Amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation

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

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured 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 consolidated 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 the Group's 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.

2.7 Impairment of investments in subsidiaries and non-financial assets

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 Summary of significant accounting policies *(Continued)*

2.8 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.

2.9 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.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 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.

2.12 Trade payables

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

2.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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.

2 Summary of significant accounting policies *(Continued)*

2.13 Current and deferred income tax *(Continued)*

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.

2.14 Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

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

2 Summary of significant accounting policies *(Continued)*

2.14 Employee benefits *(Continued)*

(iii) Retirement benefit costs

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

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

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 providing 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.

2.15 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 Summary of significant accounting policies *(Continued)*

2.16 Provision

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

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

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

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

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

2.18 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.

(i) 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 2009, 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$509,000 (2008: HK$665,000) 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)*

(ii) 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 2009 deposits with banks of HK$147,238,000 (2008: HK$359,075,000) 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 17 to the accounts.

(iii) 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 2009, the Group's financial liabilities were mainly trade and other payables amounting to HK$53,556,000 (2008: HK$47,489,000), which were due within 12 months.

(iv) 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 2009, 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$1,104,000 (2008: HK$2,693,000) 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 2009, 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 2009.

5 Segment information

(a) Primary reporting format - business segments

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

(i) Sales of beauty and wellness services; and

(ii) Sales of skincare products.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Turnover:		
Sales of beauty and wellness services	**621,686**	733,296
Sales recognised upon expiry of prepaid beauty packages	**20,107**	31,466
Total gross sales of beauty and wellness services	**641,793**	764,762
Total gross sales for sale of skincare products	**36,056**	38,429
	677,849	803,191
Inter-segment sales	**(16,054)**	(17,189)
Total	**661,795**	786,002
Segment results:		
Sales of beauty and wellness services	**27,203**	263,626
Sales of skincare products	**13,363**	13,321
	40,566	276,947
Other gains – net	**11,392**	2,581
Unallocated costs	**(33,650)**	(29,362)
Operating profit	**18,308**	250,166
Interest income	**3,907**	23,667
Profit before income tax	**22,215**	273,833
Income tax expense	**(4,990)**	(47,060)
Profit for the year	**17,225**	226,773

5 Segment information *(Continued)*

	Group 2009 HK$'000	Group 2008 HK$'000
Segment assets:		
Beauty and wellness services	**351,950**	487,089
Skincare products	**7,505**	8,681
	359,455	495,770
Unallocated assets	**250,292**	217,595
Total assets	**609,747**	713,365
Segment liabilities:		
Beauty and wellness services	**(304,403)**	(307,205)
Skincare products	**(3,567)**	(5,312)
	(307,970)	(312,517)
Unallocated liabilities	**(2,865)**	(26,169)
Total liabilities	**(310,835)**	(338,686)
Other information:		
Capital expenditure		
Beauty and wellness services	**57,788**	136,693
Unallocated capital expenditure	**1,477**	21,003
	59,265	157,696
Depreciation and amortisation		
Beauty and wellness services	**39,532**	32,315
Skincare products	**274**	115
Unallocated depreciation and amortisation	**930**	573
	40,736	33,003

5 Segment information *(Continued)*

(b) Secondary reporting format – geographical segments

The Group operated in two geographical segments during the year:

(i) Hong Kong; and

(ii) Mainland China

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

	Group	
	2009	2008
	HK$'000	HK$'000
Turnover:		
Hong Kong	**626,046**	772,117
Mainland China	**35,749**	13,885
Total	**661,795**	786,002
Segment assets:		
Hong Kong	**573,493**	672,895
Mainland China	**36,254**	40,470
Total assets	**609,747**	713,365
Other information:		
Capital expenditure		
Hong Kong	**56,841**	150,962
Mainland China	**2,424**	6,734
	59,265	157,696

6 Other gains - net

	Group	
	2009	2008
	HK$'000	HK$'000
Gross rental income	**731**	731
Gain on disposal of property, plant and equipment	**—**	1,252
Food income	**955**	—
Commission income	**2,652**	—
Magazine subscription income	**6,385**	—
Other income	**669**	598
	11,392	2,581

7 Employee benefit expense (including directors' remuneration)

	Group	
	2009	2008
	HK$'000	HK$'000
Wages and salaries	**317,519**	260,783
Pension costs – defined contribution plan *(note a)*	**12,823**	10,951
Other staff welfare	**1,154**	1,028
Share based compensation *(note 22)*	**1,427**	1,623
	332,923	274,385

(a) Pensions - defined contribution plans

There were no forfeited contributions during the year (2008: Nil).

Contributions totaling HK$1,648,000 (2008: HK$1,617,000) were payable to the fund at the year-end.

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

(b) Directors' and senior management's remuneration

The remuneration of every Director for the year ended 31 March 2009 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 (ii)	—	10,092	146	8	10,246
Lee Soo Ghee	—	9,569	146	12	9,727
Yuen Siu Ping	—	1,658	162	12	1,832
Yip Kai Wing	—	620	54	12	686
Kwong Chi Ching	—	994	22	12	1,028
Mok Hin Yuk	—	372	—	12	384
Cheng Kai Tai, Allen	180	—	—	9	189
Yip Ki Chi, Luke (iii)	169	—	—	8	177
So Say Keong, Sean (iii)	169	—	—	8	177
Wong See Hong (iv)	15	—	—	1	16
Yu How Yuen (v)	15	—	—	1	16
	548	23,305	530	95	24,478

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 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	—	547	108	7	662
Yip Kai Wing	—	637	54	12	703
Kwong Chi Ching	—	989	22	12	1,023
Mok Hin Yuk	—	387	—	12	399
Yu How Yuen	165	—	—	8	173
Cheng Kai Tai, Allen	165	—	—	8	173
Wong See Hong	165	—	—	8	173
Yip Ki Chi, Luke	—	—	—	—	—
So Say Keong, Sean	—	—	—	—	—
	495	22,689	640	103	23,927

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

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

Notes:

(i) Other benefits represented share options

(ii) Resigned on 26 November 2008

(iii) Appointed on 24 April 2008

(iv) Resigned on 9 May 2008

(v) Resigned on 30 May 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	
	2009	2008
Directors	**4**	4
Employee	**1**	1
	5	5

The five individuals whose remunerations were the highest in the Group for the year include four (2008: four) Directors whose remunerations are reflected in the analysis presented above. The remuneration payable to the remaining one (2008: one) individual during the year is as follows:

	2009	2008
	HK$'000	HK$'000
Basic salaries and allowances	**832**	869
Retirement benefit cost	**12**	12
	844	881

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

	2009	2008
Emolument Bands (in HK dollar)		
HK$nil – HK$1,000,000	**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	
	2009	2008
	HK$'000	HK$'000
Auditors' remuneration	**2,763**	2,474
Cost of inventories sold	**20,258**	21,618
Employee benefit expense *(note 7)*	**332,923**	274,385
Depreciation and amortisation	**40,736**	33,003
Occupancy costs	**111,465**	79,957
Advertising costs	**28,177**	23,781
Building management fee	**21,907**	16,840
Bank charges	**29,914**	28,364
Loss on disposal of property, plant and equipment	**1,561**	—
Other expenses	**65,175**	57,995

9 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 17.5%) on the estimated assessable profit for the year.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Current income tax		
– Current year	**8,430**	49,090
– (Over)/under provision in prior years	**(1,065)**	1,322
	7,365	50,412
Deferred income tax *(note 18)*	**(2,375)**	(3,352)
	4,990	47,060

9 Income tax expense *(Continued)*

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

	Group	
	2009	2008
	HK$'000	HK$'000
Profit before income tax	**22,215**	273,833
Calculated at a taxation rate of 16.5% (2008: 17.5%)	**3,665**	47,920
Income not subject to taxation	**(594)**	(4,298)
Expenses not deductible for taxation purposes	**236**	859
(Over)/under provision in prior years	**(1,065)**	1,322
Over provision of deferred tax assets in prior years	**2,092**	—
Tax effect of unrecognised tax losses	**1,411**	2,554
Effect on opening deferred tax balance resulting from a decrease in tax rate during the year	**(61)**	—
Effect of different tax rates in different tax jurisdictions	**(694)**	(1,297)
Income tax expense	**4,990**	47,060

10 Earnings per share

(a) Basic

The calculation of basic earnings per share is based on the Group's net profit for the year ended 31 March 2009 of HK$17,225,000 (2008: HK$226,773,000) and the weighted average of 723,520,000 (2008: 723,498,142) shares in issue during the year.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding of 725,884,559 (2008: 732,715,761) shares to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

11 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$203,592,000 (2008: HK$164,513,000).

12 Dividends

	2009	2008
	HK$'000	HK$'000
2009 interim dividend of HK4.3 cents per ordinary share (2008: HK10.0 cents per ordinary share)	**31,111**	72,352
2008 final dividend of HK8.8 cents per ordinary share	**—**	63,670
	31,111	136,022

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 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
Year ended 31 March 2009							
Opening net book amount	**38,375**	**46,172**	**19,304**	**1,314**	**1,435**	**2,856**	**109,456**
Exchange differences	**—**	**64**	**23**	**2**	**—**	**2**	**91**
Additions	**—**	**42,138**	**8,780**	**264**	**6,607**	**1,476**	**59,265**
Disposals	**—**	**(2,381)**	**(2)**	**—**	**—**	**—**	**(2,383)**
Depreciation	**(884)**	**(25,019)**	**(8,510)**	**(432)**	**(2,063)**	**(1,624)**	**(38,532)**
Closing net book amount	**37,491**	**60,974**	**19,595**	**1,148**	**5,979**	**2,710**	**127,897**
As at 31 March 2009							
Cost	**40,257**	**146,986**	**86,593**	**7,083**	**11,288**	**9,244**	**301,451**
Accumulated depreciation	**(2,766)**	**(86,012)**	**(66,998)**	**(5,935)**	**(5,309)**	**(6,534)**	**(173,554)**
Net book amount	**37,491**	**60,974**	**19,595**	**1,148**	**5,979**	**2,710**	**127,897**

13 Property, plant and equipment *(Continued)*

The leasehold buildings are analysed as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	**33,128**	33,975
Leases of over 50 years	**4,363**	4,400
	37,491	38,375

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	
	2009	2008
	HK$'000	HK$'000
At beginning of the year	**118,088**	26,661
Additions	**—**	92,679
Amortisation	**(2,204)**	(1,252)
At end of the year	**115,884**	118,088

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

	Group	
	2009	2008
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	**72,965**	74,806
Leases of over 50 years	**42,919**	43,282
	115,884	118,088

15 Investments in subsidiaries

	Company 2009 HK$'000	Company 2008 HK$'000
Unlisted shares, at cost	**101,076**	101,076

The following is a list of the principal subsidiaries as at 31 March 2009:

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

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
Kin Yik Bomedical Technology Ltd.	Hong Kong, limited liability company	Provision of beauty and wellness services and sales of skincare products, Hong Kong	2 ordinary shares of HK$1	—	100%
Koladen Enterprises Inc.	British Virgin Islands, limited liability company	Investment holding, Hong Kong	100 ordinary shares of US$1	100%	—
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%
Modern (Human Resource) Limited	Hong Kong, limited liability company	Provision of management services, Hong Kong	10,000 ordinary shares of HK$1	—	100%
Zi Advertising (Hong Kong) Limited (formerly known as "Modern Advertising (Hong Kong) Limited")	Hong Kong, limited liability company	Provision of advertising services, Hong Kong	10,000 ordinary shares of HK$1	—	100%
Modern Beauty Holdings Limited	British Virgin Islands, limited liability company	Investment holding, Hong Kong	1,000 ordinary shares of US$1	—	100%
Modern Beauty Management Company Limited	Hong Kong, limited liability company	Investment holding, Hong Kong	1,000 ordinary shares of HK$1	—	100%
Modern Beauty Salon (Hong Kong) Limited	Hong Kong, limited liability company	Sales of beauty and wellness services and sales of skincare products, Hong Kong	2 ordinary shares of HK$1	—	100%
Modern Beauty Salon (International) Limited	British Virgin Islands, limited liability company	Provision of sub-franchising services in relation to the provision of beautification and gymnastic services, Hong Kong	450,000 preferred shares of US$0.1 and 50,000 ordinary shares of US$0.1	—	100%
Modern Beauty Saloon Limited	Hong Kong, limited liability company	Sales of beauty and 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%

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
Nice Sound Investments Ltd.	British Virgin Islands, limited liability company	Investment holding, Hong Kong	1 ordinary share of US$1	—	100%
Step Well Investment Limited	Hong Kong, limited liability company	Sales of beauty and 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 Thbearty Products Company Limited 廣州歐裕美容產品有限公司 ("GZEW"), (c)	PRC, limited liability company	Sales of skincare products	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 2009.

16 Amounts due from subsidiaries

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

17 Trade and other receivables, deposits and prepayments

	Group	
	2009	2008
	HK$'000	HK$'000
Non-current assets		
Rental and other deposits	**21,578**	25,710
Current assets		
Trade receivables	**91,197**	48,075
Rental and other deposits, prepayments and other receivables	**46,467**	23,989
Amounts due from related companies *(note 28(b))*	**516**	450
	138,180	72,514
	159,758	98,224

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

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

The Group's turnover comprises mainly cash and credit card sales. Trade receivables are due within 150 days (2008: 60 days) from the date of billings. An ageing analysis of trade receivables as at the balance sheets dates is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	**29,155**	39,767
31 – 60 days	**29,249**	8,296
61 – 90 days	**27,255**	12
91 – 150 days	**5,538**	—
	91,197	48,075

As of 31 March 2009 and 2008, there are no trade receivables past due.

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

	Group	
	2009	2008
	HK$'000	HK$'000
Hong Kong dollar	**91,136**	47,814
Renminbi	**61**	261
	91,197	48,075

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.

18 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	
	2009	2008
	HK$'000	HK$'000
Deferred income tax assets to be recovered after more than 12 months	**9,701**	6,477
Deferred income tax liabilities to be settled after more than 12 months	**(1,055)**	(209)
	8,646	6,268

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

	Group	
	2009	2008
	HK$'000	HK$'000
Beginning of the year	**6,268**	2,898
Exchange differences	**3**	18
Recognised in the consolidated income statement *(note 9)*	**2,375**	3,352
End of the year	**8,646**	6,268

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$1,411,000 (2008: HK$3,579,000) in respect of losses amounting to HK$7,678,000 (2008: HK$16,821,000) that can be carried forward against future taxable income.

18 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		**Tax loss**		**Total**	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Beginning of the year	**6,477**	2,891	**—**	86	**6,477**	2,977
Credited/(charged) to consolidated income statement	**1,179**	3,568	**2,042**	(86)	**3,221**	3,482
Exchange differences	**3**	18	**—**	—	**3**	18
End of the year	**7,659**	6,477	**2,042**	—	**9,701**	6,477

Deferred income tax liabilities:

	Group	
	Accelerated depreciation allowance	
	2009	2008
	HK$'000	HK$'000
Beginning of the year	**(209)**	(79)
Charged to consolidated income statement	**(846)**	(130)
End of the year	**(1,055)**	(209)

19 Inventories

As at 31 March 2009 and 31 March 2008, inventories represented finished goods held on hand.

20 Pledged bank deposits

As at 31 March 2009 and 31 March 2008, the Group pledged bank deposits of approximately HK$9,412,000 and HK$9,264,000 respectively in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company.

21 Cash and cash equivalents

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

	Group	
	2009	2008
	HK$'000	HK$'000
Cash at bank and cash in hand	**73,026**	75,990
Short-term bank deposits	**64,800**	273,821
	137,826	349,811

	Company	
	2009	2008
	HK$'000	HK$'000
Cash at bank and cash in hand	**8,182**	163

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	Group	
	2009	2008
	HK$'000	HK$'000
Hong Kong dollar	**58,863**	61,870
United States dollar	**56,227**	269,811
Renminbi	**22,736**	18,130
	137,826	349,811

The carrying amounts of the Company's cash and cash equivalents are denominated in Hong Kong dollar.

22 Share capital

(a) Authorised and issued capital

	Number of shares	Approximate amount HK$'000
Authorised:		
As at 31 March 2008 and 31 March 2009	10,000,000,000	1,000,000
Issued and fully paid:		
As at 31 March 2008 and as at 31 March 2009	723,520,000	72,352

(b) Share Option

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

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 2008	Reclassification	Number of options lapsed during the year	Number of options as at 31 March 2009
Directors	4,900,000	(1,350,000)	—	**3,550,000**
Senior management	750,000		(300,000)	**450,000**
Other employees	7,550,000		(580,000)	**6,970,000**
Others	—	1,350,000	—	**1,350,000**
	13,200,000	—	(880,000)	**12,320,000**

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.

23 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 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 final 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
As at 1 April 2008	146,875	2,053	(53,982)	1,684	205,697	302,327
Employee share option:						
Value of employee services	—	1,427	—	—	—	1,427
Lapse of share option	—	(232)	—	—	232	—
Profit for the year	—	—	—	—	17,225	17,225
2008 final dividend paid	—	—	—	—	(63,670)	(63,670)
2009 interim dividend paid	—	—	—	—	(31,111)	(31,111)
Exchange differences	—	—	—	362	—	362
As at 31 March 2009	**146,875**	**3,248**	**(53,982)**	**2,046**	**128,373**	**226,560**
Representing:						
Premium and reserve						226,560
Proposed dividends						—
As at 31 March 2009						**226,560**

(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.

23 Share premium and reserves *(Continued)*

	Company				
	Share premium HK$'000	Share based compensation reserve HK$'000	Contributed surplus (note a) HK$'000	Retained earnings HK$'000	Total HK$'000
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
As at 1 April 2008	146,875	2,053	47,076	7,392	203,396
Employee share option:					
Value of employee services	—	1,427	—	—	1,427
Lapse of share option	—	(232)	—	232	—
Profit for the year	—	—	—	203,592	203,592
2008 final dividend paid	—	—	—	(63,670)	(63,670)
2009 interim dividend paid	—	—	—	(31,111)	(31,111)
As at 31 March 2009	**146,875**	**3,248**	**47,076**	**116,435**	**313,634**
Representing:					
Premium and reserve					313,634
Proposed dividends					—
As at 31 March 2009					**313,634**

(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.

24 Trade and other payables, deposits received and accrued expenses

	Group	
	2009	2008
	HK$'000	HK$'000
Trade payables	**918**	1,651
Other payables, deposits received and accrued expenses	**52,638**	45,838
	53,556	47,489

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

	Group	
	2009	2008
	HK$'000	HK$'000
Within 90 days	**918**	1,651

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

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

	Group	
	2009	2008
	HK$'000	HK$'000
Hong Kong dollar	**904**	1,627
Renminbi	**14**	24
	918	1,651

25 Deferred revenue

An ageing analysis of the deferred revenue is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 1 year	**170,602**	125,713
More than 1 year but within 2 years	**43,883**	72,286
More than 2 years but within 3 years	**39,929**	67,029
	254,414	265,028

Movement of deferred revenue

	Group	
	2009	2008
	HK$'000	HK$'000
Beginning of the year	**265,028**	420,007
Exchange differences	**163**	(728)
Receipts during the year	**631,016**	610,511
Sales of beauty and wellness services	**(621,686)**	(733,296)
Sales recognised upon expiring prepaid beauty packages	**(20,107)**	(31,466)
End of the year	**254,414**	265,028

26 Commitments

(a) Commitments under operating leases

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

	Group	
	2009	2008
	HK$'000	HK$'000
Not later than one year	**95,630**	97,849
Later than one year and not later than five years	**108,456**	130,809
Over five years	**1,399**	5,207
	205,485	233,865

(b) Other commitments

Other commitments at the balance sheet date are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Capital expenditure contracted for but not yet incurred in the financial statements in respect of acquisition of:		
– Land and building	**119,520**	—
– Plant and equipment	**1,151**	8,275
	120,671	8,275

27 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, tenancy dispute and personal injuries in relation to the services provided, including claims of unspecified amounts. The directors are of the opinion that such complaints and claims have no material financial impact to the Group.

28 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 2009 HK$'000	Group 2008 HK$'000
(I)	Rental expenses paid to related companies:			
	Chain Tech International Limited	(i)	**408**	432
	Luck Elegant Industrial Limited	(i)	**1,680**	1,680
	Golden National Limited	(i)	**4,800**	—
	All Link International Ltd	(i)	**457**	—
			7,345	2,112
	License fee paid to a related company:			
	Grateful Heart Charitable Foundation Limited	(ii)	**960**	—
	Sales of products to related companies:			
	Euro King Limited	(iii)	**551**	—
	Most Glory Limited	(iii)	**435**	—
			986	—
(II)	Franchise income received from a related company:			
	JF Holdings (S) Pte Limited	(iv)	**—**	500

Note:

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

(ii) The amounts represented license fee paid for the use of trademark to a related company at a monthly license fee mutually agreed by both parties. The related company is controlled by Ms. Tsang Yue, Joyce.

(iii) The amounts represented sales of products to a related company at a price mutually agreed by both parties. The related company is controlled by Ms. Tsang Yue, Joyce.

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

28 Related party balances and transactions *(Continued)*

(b) Balances with related parties

Amounts due from related companies

	Group			
	Balance as at 31 March 2009 HK$'000	Balance as at 31 March 2008 HK$'000	**Maximum outstanding balance for the year ended 31 March 2009 HK$'000**	Maximum outstanding balance for the year ended 31 March 2008 HK$'000
Grateful Heart Charitable Foundation Limited	**—**	—	**5,323**	—
JF Holdings (S) Pte Limited	**—**	450	**450**	450
Euro King Limited	**516**	—	**667**	—

The amounts due from related companies are unsecured, interest free and repayable on demand. Ms. Tsang Yue, Joyce is the ultimate controlling party of the Company and the above related companies.

(c) Guarantee

As at 31 March 2009, Ms. Tsang Yue, Joyce 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	
	2009 HK$'000	2008 HK$'000
Fee	**548**	495
Salaries	**23,305**	22,689
Employer's contribution to pension scheme	**95**	103
Share based payment	**530**	640
	24,478	23,927

29 Events after the balance sheet date

On 15 June 2009, Ms. Tsang Yue, Joyce ("Ms. Tsang"), a beneficial shareholder of the Company and All Link International Limited, a company wholly-controlled by Ms. Tsang, entered into an agreement with Joy East Limited, Wise World Limited, East Union Industries Limited, Well Faith International Enterprises Limited and Rise Luck Development Limited for the borrowing a bridging loan in the total sum of HK$118,000,000 in order to facilitate the acquisition of a property which will be completed on 30 June 2009. Upon the completion of the acquisition, the subsidiaries of the Company will obtain loan facilities from a licensed bank for repayment of the said bridging loan.

Properties held by the Group

As at 31 March 2009

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	Spa and beauty treatment (under construction)
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				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**661,795**	786,002	614,064	498,265	456,932
Profit before taxation	**22,215**	273,833	210,468	143,477	126,743
Income tax expense	**(4,990)**	(47,060)	(33,050)	(20,966)	(21,572)
Profit for the year	**17,225**	226,773	177,418	122,511	105,171

Consolidated assets and liabilities

	As at 31 March				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total non-current assets	**275,060**	259,731	124,149	163,639	122,423
Total current assets	**334,687**	453,634	661,148	685,818	630,767
Total assets	**609,747**	713,365	785,297	849,457	753,190
Total non-current liabilities	**(1,055)**	(209)	(79)	(50)	(103)
Total current liabilities	**(309,780)**	(338,477)	(475,731)	(564,135)	(634,352)
Total liabilities	**(310,835)**	(338,686)	(475,810)	(564,185)	(634,455)
Net assets	**298,912**	374,679	309,487	285,272	118,735

Note: The summary of the consolidated assets and liabilities of the Group as at years end and the consolidated results for the two 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
現代美容控股有限公司
(HKSE Stock Code 香港聯交所上市編號：919)

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