Modern Beauty

MODERN BEAUTY SALON HOLDINGS LIMITED
現代美容控股有限公司
(Stock Code 股份代號: 919)

A New Era of
Beauty

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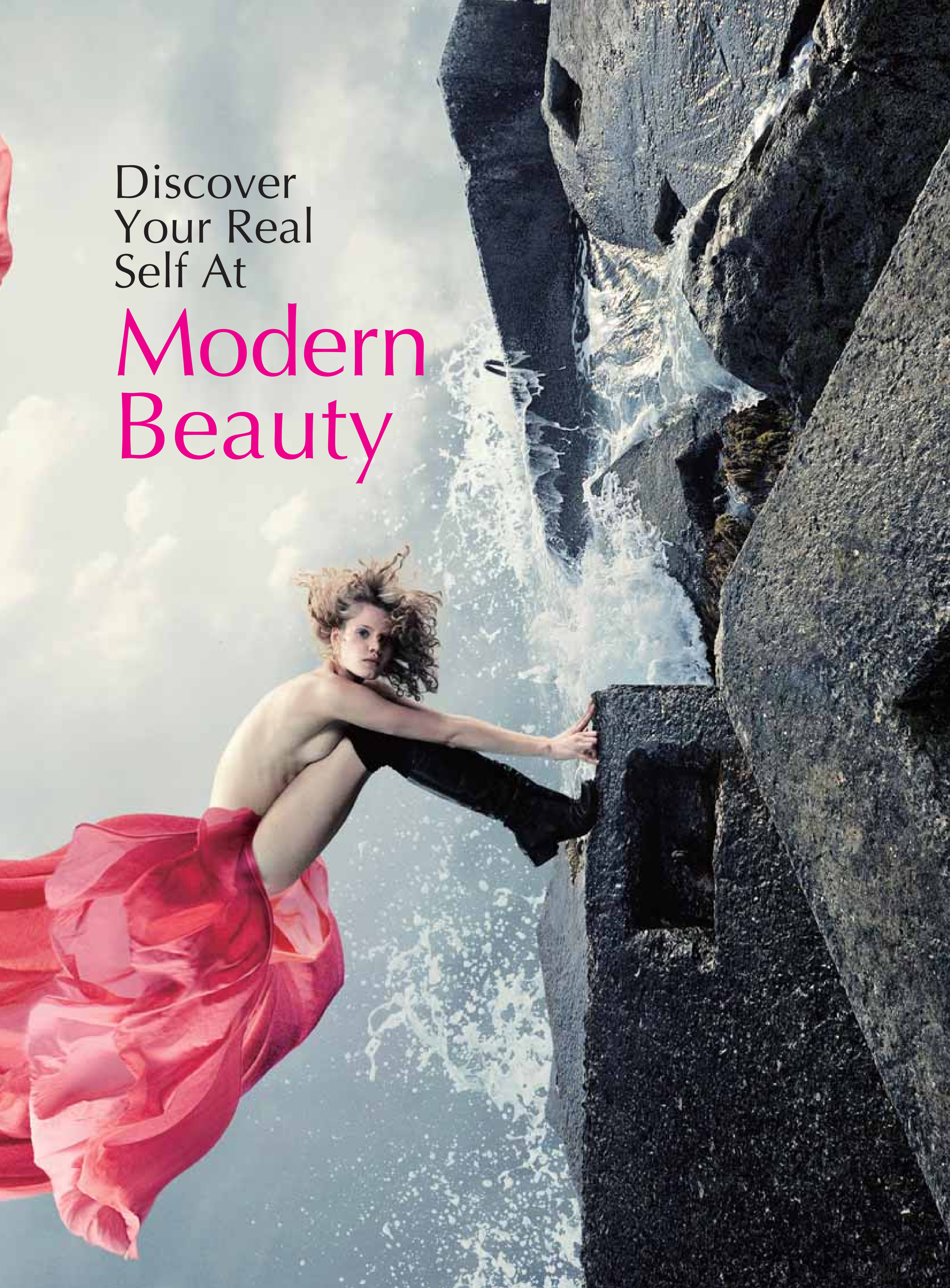
Discover
Your Real
Self At
Modern
Beauty

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Corporate Profile

Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (the "Group" or "Modern Beauty") is a leader of the beauty industry in Hong Kong offering professional treatments as well as quality services and products with scientifically-proven and natural ingredients. We are positioned at the high-end of the beauty industry that is dedicated to provide beauty and wellness services to customers who pursue a rejuvenating experience from the highest level of technical expertise and impeccable guest service. Our business operation is composed of six service lines as follows:

Beauty and facial

Modern Beauty Salon offers a wide range of treatments by our well-trained beauty therapists. Our beauty consultants review customers' usage regularly and recommend suitable treatments to our customers. We also customize specific treatments according to the needs of our VIP customers. Our senior management closely monitors the latest trends of beauty industry and acquires state-of-the-art beauty machines in order to maintain a pipeline of new treatments.

Slimming

Slim Express offers a series of weight management programs that deliver stunning results. These programs are specially designed to kick-start the metabolism and bring awareness to healthier food choices. Together with our practical and natural solutions offering from Well Nutrition, customers will rediscover esteem that brings balance into their lives.

Spa and massage

Our spa and massage treatments provide a form of escapism and offer an immersive opportunity for our customers to experience pampering styles and grooming techniques inspired by the luxurious living in the 21st century. be sanctuary spa provides resplendent bathroom furnishings and a hydrotherapeutic pool decorated with fresh flowers and carved statues, which fill the room with an aura of nature. Yue Spa is the first spa centre adopting the Five Elements – the traditional Chinese philosophy as its theme. It provides spa treatment sets named according to Destiny, Soil, Metal, Wood, Water, Fire and Earth that effectively reduce stress and improve the skin conditions. Moment of Serenity is a foot treatment centre that offers foot spa, foot treatment and foot massage services.

Fitness

The centres of Modern Fitness are superbly located in the heart of Hong Kong. They are bathed in natural light and are fully equipped. Our extensive class programme is very convenient for a lunchtime or after work session. Customers can shape up and get fit whilst fitting into their busy schedules. Yoga is a system to help its practitioners achieving highest potential and experiencing enduring health and happiness. We offer yoga classes under the brand "SooYoga" consistent with our mission of furbishing our customers with allure and esteem. Dance Square offers different dancing classes, such as Hip-hop, funky dance, Latin dance etc., which are perfect complements to an effective weight control program.

Aesthetics Services

As the world of advanced skin care and anti-aging services develops and matures, aesthetic services emerge. Present day cosmetic laser technicians can use a specific form of energy to tighten skin, stimulate the production of collagen to eliminate wrinkles and fine line, remove tattoos or unwanted hair, or a myriad of other highly sought after services. Aesthetics services include skincare treatments, professional consultation and referral service on plastic reconstruction, which is most specialized and effective and with the highest quality.

Sales of skincare and wellness products

We have been selling skincare and wellness products through three brands, namely "be", "FERRECARE" and "JOYCET". The Group recently launched "p.e.n", a new skincare specialty store, which is mainly engaged in the sales of skincare and cosmetics products from a European exquisite brand as well as, the exclusive distributorship of a star slimming food, XSlim. All products are built on cleanliness and nature, and utilize natural ingredients to enhance the quality of inner and outer skin, and optimize the natural beauty of skin from within. With sales points across Hong Kong, Kowloon and the New Territories, we strive to seek for high quality and efficient skincare and wellness products and updated information on beauty, to bring pure beauty with zero burden resulting from state-of-the-art technology to women today.

As at 31 March 2011, we had 29 and 10 service centres in Hong Kong and Mainland China, respectively. These service centres are integrated in nature and provide different business combinations at different locations wherever appropriate. Our retail network, which operates under the brands of "be Beauty Shop", "FERRECARE" concept store and "p.e.n" shop, had 10, 1 and 2 outlets respectively as at 31 March 2011.

Corporate Information

Board of Directors

Ms. Tsang Yue, Joyce (Chairperson)
Mr. Yip Kai Wing
Mr. Wong Shu Pui
Mr. Leung Man Kit
Ms. Liu Mei Ling, Rhoda
(Independent Non-executive Director)
Mr. Wong Man Hin, Raymond
(Independent Non-executive Director)
Mr. Hong Po Kui, Martin
(Independent Non-executive Director)

Authorised Representatives

Mr. Leung Man Kit
Mr. Yip Kai Wing

Company Secretary

Mr. Wong Shu Pui

Audit Committee

Ms. Liu Mei Ling, Rhoda (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin

Nomination Committee

Ms. Tsang Yue, Joyce (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

Remuneration Committee

Ms. Tsang Yue, Joyce (Chairperson)
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

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

Auditor

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
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 Highlights

Turnover

2011 → HK$587 million

2010 → HK$431 million

Profit for the year attributable to owners of the Company

2011 → HK$44 million

2010 → -HK$41 million

Operating profit margin

2011 → 8.8%

2010 → -20.6%

Basic earnings per share

2011 → HK6.07 cents

2010 → -HK5.70 cents

- For FY2011, the Group achieved growth in many segments of services rendered and products sold with turnover reaching approximately HK$586.5 million (FY2010: approximately HK$430.8 million), representing an increase of approximately 36.2%.
- Profit for the year attributable to owners of the Company turned from a loss of approximately HK$41.2 million in FY2010 to a profit of approximately HK$43.9 million.
- Operating margin improved from a loss of 20.6% in FY2010 to an operating profit margin of 8.8% in FY2011.
- Basic earnings per share for the year under review was HK6.07 cents as compared to loss per share of HK5.70 cents for last year.


Accomplishment

Mission and Milestones

Modern Beauty aims to bring its customers a unique beauty and wellness adventure. We furbish allure and esteem either through the services delivered from our service centres or through the products delivered from our retail network. At Modern Beauty, people is the cornerstone to ensure productivity is sustainable in the pipeline. Building on our successes achieved in Hong Kong, we will explore further opportunities to expand our operations in Mainland China and Asia, and will deliver more promising return to our shareholders in the coming future.

2010/11 Milestones and Key Events

August 2010 We received the "Best Slimming & Beauty Centre (資本傑出纖體美容中心)" under "Capital Best of the Best 2010 (資本傑出行政品牌 2010)" awarded by "CAPITAL MAGAZINE (資本雜誌)", which recognized our leadership in the industry.

October 2010 We held an event named "Feminine Rescuers (粉紅救兵)" for the promotion of our slimming services. The event featured with catwalk show demonstrating slim figures for girls as well as dance performances to have the event more entertaining. It was a success in enhancing public awareness about our slimming services.

November 2010 We were awarded the "Most Popular Slimming and Beauty Services (最受歡迎纖體美容服務)"under "Hottest Brand Award 2010" by "JESSICA CODE X JESSICA 女人手冊". Ms. Tsang Yue, Joyce, our Chairperson and Chief Executive Officer, attended the presentation ceremony.

December 2010 We held a signing ceremony, for which we appointed 2R, the twin singers' group, as the spokewomen for "p.e.n" series. The ceremony was held to build up the awareness for "p.e.n", a new brand created by us during the year under review.

March 2011 We held a ceremony for the opening of a "p.e.n" shop at East Point City. Apart from dancing and singing performance for entertaining purposes, we also organized make-up demonstration so as to attract public attention about how make-up can improve their outlook. Similar events were also organized subsequently at different locations to promote "p.e.n".

March 2011 We set up a mobile demonstration unit with a truck about xSlim, our slimming dietary product. The truck stopped at places with high traffic flow, such as Tsim Sha Tsui, Causeway Bay and Mongkok, and served some products to visitors for tasting. Apart from promotion, we also obtained feedback from our customers that helped us to refine our position in the markets for slimming products and services.

March 2011 Our staff received the "Service Star in Retail and Servicing Industry 2011 (零售及服務業活力之星2011)" being awarded by (FACE – 青雲路).

We were awarded "My Most Favourite Hong Kong Brand ranked by consumers in the PRC 2011" (2011年全國消費者 – 最喜愛<香港名牌>) by China Enterprise Reputation and Credibility Association (Overseas) Ltd. (中華海外企業信譽協會).


+36%
TURNOVER
Multi Vitamin Serum

Tsang Yue, Joyce
Chairperson &
Chief Executive Officer

Chairperson's Statement

I am pleased to present the audited financial report of Modern Beauty Salon Holdings Limited and its subsidiaries for the financial year ended 31 March 2011 on behalf of the Board of Directors (the "Board").

Coupled with internal and external advantageous factors, Modern Beauty managed to emerge from the shadow of our internal restructuring and the global financial crisis by gaining positive growth and achieved remarkable results. Profitability of the Company dropped slightly following the listing due to over expansion and personnel change that led to adverse impact on the Company's performance. After this incident, we have learned our lesson and would aim for sustainable growth in the future; stringently controlling the pace of growth of the Company, as well as committed to the restructuring of the Management. During the year under review, we successfully established a brand accountability system that promoted outstanding staff to become person-in-charge of specific service or product brand, who would report directly to me regarding their performance.

Under the new accountability system, decisions would be made by a larger management team, which would be more representative in promoting the growth of the Company. We are confident that with the adoption of a new expansion strategy and successful management reform, Modern Beauty would achieve steady growth and satisfactory performance in the next few years.

The Fukushima nuclear crisis triggered by earthquake in Northeastern Japan has raised consumer concern on possible radiation contamination of Japanese skincare products. Added to the increasing world trend on natural, environmentally friendly and organic products, causing natural, pollutant-free brands to gain increasing awareness and have huge potential to become future best-sellers. All through my career in the beauty industry, I have always insisted on using products from Australia and Europe, from areas where the earth's resources and production attitude ensured premium quality beauty product brands, demonstrating the depth of my knowledge and far-sightedness of the beauty industry. During the year under review, the Group was actively preparing for the launch of the p.e.n line, and as at the day of production of this report, three sales outlets were in operation, selling quality skincare and wellness product brands that were represented by our Group. The p.e.n range of products represent a new era for our Group in the sales of skincare and wellness products. These products were produced in Italy.

While carrying out the management restructuring, we were also strengthening our personnel training. The beauty industry is a people-orientated industry; while understanding the needs of our customers, we also need to gradually build up a solid work team that would support the daily operation of Modern Beauty. I am truly honoured that my experience gained in the beauty industry were recognized by members of our staff, and that under my leadership, the staff were able to achieve job satisfaction as well as autonomy to utilize their talents, so that the mission of the staff and the Group could both be achieved. As essential as yeast is in bread making, the commitment of our staff is just as important to the continual growth of our Company.

Outlook

Renovation work of our Group's property at 5 Minden Avenue has been commenced. When the property is official opened, the Group would collaborate with tenants to launch a publicity campaign to promote our aesthetics services. By creating synergy with the tenants, we would be benefiting from our tenants, and at the same time bringing in a new source of well-to-do customers for the Group, thereby bringing higher return for our service centre and product sales.

In view of the rapid urbanization of the cities in the PRC, our Group is currently seeking joint-venture opportunities for developing service centres in the second-tiered cities in China in order to expand our Group's market share in the PRC.

In the next five years, the Group will strengthen and develop the skincare and wellness product business by expanding our sales network, increasing brands and products representation, or even acquiring new skincare and wellness product brands so as to achieve our business diversification goal. The sales of skincare and wellness products is expected to be a major force behind the Group's profit growth in the future, and we will consider a further separate listing when appropriate.

Appreciation

We have successfully completed the internal restructuring plans during the year under review, and I would like to take this opportunity to thank the management and all our staff; for we would not have achieved our goals without their commitment, expertise, and hard work. They are the key to the Group's future development, and I am proud and honoured to have worked with them as a team.

Ms. Tsang Yue Joyce
Chairperson and Chief Executive Officer

Hong Kong, 29 June 2011

Growth

Beauty and Facial · Slimming · Spa and Massage · Fitness

+37%

in Revenue from Provision of Beauty and Wellness Services and Expiry of Prepaid Beauty Packages

Management Discussion and Analysis

Sales of skincare and wellness products increased from HK$28.7 million in FY 2010 to approximately HK$35.6 million in the year under review, representing an increase of approximately 23.8%.

Overview

For the year ended 31 March 2011 ("FY2011" or the "year under review"), the Group achieved growth in many segments of services rendered and products sold with turnover reaching approximately HK$586.5 million (for the year ended 31 March 2010 ("FY2010"): approximately HK$430.8 million), representing an increase of approximately 36.2%. In FY2011, employee benefits expenses increased by 17.3% to approximately HK$298.0 million from HK$254.1 million, whilst occupancy costs decreased by 6.2% to approximately HK$102.1 million from HK$108.8 million respectively in FY2010. As a result, operating profit for the year increased to approximately HK$51.5 million as compared to a loss of approximately HK$88.9 million for FY2010. Furthermore, profit for the year attributable to owners of the Company also turned from a loss of approximately HK$41.2 million in FY2010 to a profit of approximately HK$43.9 million. Operating margin improved from a loss of 20.6% in FY2010 to an operating profit margin of 8.8% in FY2011. Basic earnings per share for the year under review was HK6.07 cents as compared to loss per share of HK5.70 cents for last year.

Segment Results

Benefiting from the marked improvement in the economic environment in Hong Kong and Mainland China, revenue from provision of beauty and wellness services and expiry of prepaid beauty packages grew from HK$402.0 million in FY2010 to approximately HK$550.9 million in FY2011, representing an increase of approximately 37.0%. Sales of skincare and wellness products increased from HK$28.7 million in FY 2010 to approximately HK$35.6 million in the year under review, representing an increase of approximately 23.8%.

Hong Kong operations

During the year under review, receipts from sales of prepaid beauty packages increased from HK$491.0 million in FY2010 to approximately HK$557.7 million, representing an increase of approximately 13.6%, which was attributable to a number of factors. The closures of certain beauty and yoga chain stores in Hong Kong run by other competitors eroded the confidence of customers in consuming prepaid packages. Despite the above, we managed to secure growth in sales of prepaid beauty packages, which was a reflection on the consistent application of our strategy in customer segmentation. Since our establishment, we have placed emphasis to identify customers that are keen in consuming beauty and wellness services so as to furbish their allure and esteem. With gradual improvement in the economy of Hong Kong, the disposable income of our customers also increased and they were willing to allocate more resources to enhance their own beauty and wellness. Hence, the Group was benefited from the gradual improvement in the economy and derived more sales of prepaid beauty packages in Hong Kong.

Upon the outbreak of global financial crisis in late 2008 to early 2009, the Group suffered from loss in FY2010. As such, we restructured our operation structure and reorganised our group establishment. During the year under review, revenue from services rendered increased from HK$370.2 million in FY2010 to approximately HK$519.4 million or an increase of approximately 40.3%.

The Group sells skincare and wellness products through its service centres, as well as a retail network comprising of "be Beauty Shop" and "FERRECARE Concept Store". During the year under review, such skincare and wellness products also included cosmetics and hair care products. In FY2011, efforts were devoted to increase the sales of skincare and wellness products. With a sluggish economy in Europe, a number of European skincare and wellness products producers were looking for opportunities to develop in Greater China market. We, as a market leader in the beauty industry, have reviewed these potential suppliers and entered into discussion selectively with those that produce high-quality skincare and wellness products with state-of-the-art technologies and natural unpolluted material sources. We have successfully concluded new distributorship agreements for new brands of products in FY2011. Furthermore, we created "p.e.n", a new brand under our retail network approaching the end of FY2011. Since the year under review, the Group implemented an extensive marketing campaign to launch the brand, including the appointment of celebrities as spokeswomen and holding opening ceremonies at shopping centres with high traffic flow during weekends. Revenue from sales of skincare and wellness products increased from HK$27.9 million in FY2010 to HK$34.2 million in FY2011.

With an abundant cash flow generating from the provision of beauty and wellness services, our profile can impress our banks to maintain their relationship with us without further tightening their policies towards credit card prepayments.

During the year under review, the number of the Group's services centres in Hong Kong decreased by 3 to 29, with a total weighted average gross floor area of approximately 258,000 square feet, down by 13.4% when compared with the figure of 298,000 square feet as at 31 March 2010. The total number of customers managed under our Hong Kong operations as at 31 March 2011 reached about 278,000, representing an increase of 6.1% when compared with the number of 262,000 as at 31 March 2010.

Mainland China operations

We conduct our Mainland China operations through three wholly foreign owned enterprises established in Beijing, Shanghai and Guangzhou in the People's Republic of China (the "PRC"). These three wholly foreign owned enterprises operate a total of 10 service centres at the three cities referred. During the year under review, our Mainland China Operations reported a turnover of HK$32.9 million and a loss of HK$2.1 million. Receipts from sales of prepaid beauty packages amounted to HK$30.1 million, down by 8.8% when compared with last year. Revenue from services rendered amounted to HK$31.5 million, representing a decrease of 0.8% when compared with last year.

Management Discussion and Analysis

The Mainland China market presents opportunities and challenges to the Group. As the provision of beauty and wellness services in the PRC requires a modification from our existing business model to solicit customers in Hong Kong, we are still in the process of optimizing the business model for Mainland China Operations. Endeavours were used to pursue the business cooperation at second and third tier cities in the PRC during the year under review. As at the date hereof, no formal agreement has been entered into and the timetable, terms and conditions of such business cooperation are yet to be agreed. Further announcement will be made as and when appropriate in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Financial Review

Turnover

During the year ended 31 March 2011, turnover increased by HK$155.8 million or 36.2% to HK$586.5 million. Such increase was driven by the increase in the number of customers and rising demand for prepaid beauty packages building from the strong confidence in the Group's operations on an ongoing basis.

Set out below is a breakdown on turnover of the Group by service lines and product sales during FY 2011 (with comparative figures for FY 2010):

	For the year ended 31 March				
	2011		2010		
Sales mix	HK$'000	Percentage of turnover	HK$'000	Percentage of turnover	Change
Beauty and facial	381,058	65.0%	259,347	60.2%	+46.9%
Slimming	109,112	18.6%	75,937	17.6%	+43.7%
Spa and massage	53,696	9.2%	57,233	13.3%	-6.2%
Fitness	7,074	1.2%	9,499	2.2%	-25.5%
Beauty and wellness services	550,940	94.0%	402,016	93.3%	+37.0%
Sales of skincare and wellness products	35,587	6.0%	28,734	6.7%	+23.8%
Total	586,527	100.0%	430,750	100.0%	+36.2%

Joyce Tsang, the Founder, Chairman and Chief Executive Officer of Modern Beauty Salon, was awarded the "Woman Entrepreneur of the Year 2011" by Enterprise Asia. In her speech of thanks, she gave thanks to the staff member on working hard with her, and she also offered her thanks to the clients who have supported her for long time. Tsang promised that she will expand the business zealously, also will develop and introduce more advanced beauty technology and products, in order to set a new milestone for the group.

Both beauty and facial and slimming service lines were the strongest driving forces to the growth of the Group's turnover. Benefiting from the improvement of economy and the correct positioning of the Group in the beauty industry of Hong Kong, the contribution to turnover from beauty and facial service line demonstrated a distinguished growth of approximately 46.9% to approximately HK$381.1 million in FY2011 from HK$259.3 million in FY2010. Slimming, being the most essential service complement to beauty and facial, also grew by approximately 43.7% to approximately HK$109.1 million in FY2011 from HK$75.9 million in FY2010.

We are aware of the importance by technology to enhance operation efficiency. With the growing popularity of mobile handheld computer devices, our real-time online ordering system is well-received by our customers at large. During the year under review, the Group devoted resources to the development of our electronic real-time endorsement and verification system, which allows our customers to reserve booking according to their needs around the clock throughout the year. We sought to reach more customers through an increased number of advertising channels. We do not only place advertisements in magazines but also advertise on television as well as popular portals. As a result, our number of customers increased by 7% during the year under review and we believed this was an evidence demonstrating the positive effect derived from advertising as mentioned above. Hence, sales of new prepaid beauty packages improved upon the favourable business environment and the preferences of customers in selecting the Group for the provision of beauty and wellness services. During the year under review, sales of new prepaid beauty packages amounted to HK$587.8 million, representing an increase of 12.2% from HK$524.1 million in FY2010.

Set out below is an analysis on the deferred revenue:

	As at 31 March					
	2011			2010		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Beginning of the year	**355,376**	**21,189**	**376,565**	234,586	19,828	254,414
Exchange differences	**–**	**236**	**236**	–	83	83
Receipts from sales of prepaid beauty packages	**557,710**	**30,124**	**587,834**	491,038	33,046	524,084
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(519,424)**	**(31,516)**	**(550,940)**	(370,248)	(31,768)	(402,016)
End of the year	**393,662**	**20,033**	**413,695**	355,376	21,189	376,565

Employees benefit expenses

Employees benefit expenses (including staff's salaries and bonuses as well as directors' remunerations), representing the largest component of the Group's operating expenses, rose by approximately 17.3% to approximately HK$298.0 million comparing to HK$254.1 million in FY2010. This was attributable to the growth of our operations. Employees benefit expenses accounted for 50.8% of our turnover, comparing to 59.0% for FY2010.

The Group's remuneration policies are in line with the prevailing market practices and are determined base

+24%

in Sales of Skincare and Wellness Products

The sales of skincare and wellness products is expected to be a major force behind the Group's profit growth in the future.

Management Discussion and Analysis

on individual performance and experience. The Group constantly reviews staff remuneration to ensure it is competitive within the industry. For motivating and rewarding our staff, discretionary bonuses and share options are granted to eligible employees based on individual performance and the Group's results. In addition, the Group introduced the elite system since the first quarter of 2010, whereby excellent staff with outstanding performance will receive discretionary bonuses in recognition of their contribution.

Occupancy costs

During the year under review, the Group conducted a comprehensive review on the performance of various service centres. As a result, service centres with poor performance were closed and some of the service centres were consolidated into larger premises at shopping centres in the adjacent areas. The number of service centres as at 31 March 2011 decreased by 3 to 39 (FY2010: 42), with a total weighted average gross floor area of approximately 315,000 square feet, a decrease of 11.5% as compared to 356,000 square feet in FY2010 and lead to the decrease in occupancy costs. For the year ended 31 March 2011, the Group's occupancy costs amounted to approximately HK$102.1 million (FY2010: HK$108.8 million), accounting for approximately 17.4% (FY2010: 25.3%) of our turnover.

Depreciation

During the year under review, depreciation amounted to approximately HK$38.5 million, a decrease of approximately 10.2% as compared with FY2010. The decrease of depreciation is mainly due to the relocations of existing premises to consolidated premises as discussed above.

Other operating expenses

Other operating expenses mainly include bank charges, advertising costs, utilities and building management fees. Bank charges rose by approximately 15.8% to approximately HK$27.5 million, which was primarily attributable to the increase in sales of new prepaid beauty packages and skincare and wellness products during the year under review. Advertising costs increased to approximately HK$9.6 million, comparing to HK$8.8 million for FY2010. The percentage of advertising costs to turnover dropped from 2.1% to 1.6%, demonstrating the success of our direct selling strategies and the reputation of the Group enjoying in the beauty industry.

Operating profit and operating profit margin

Operating profit for the year increased to approximately HK$51.5 million as compared to a loss of approximately HK$88.9 million for FY2010. Furthermore, profit for the year attributable to owners of the Company also turned from a loss of approximately HK$41.2 million in FY2010 to a profit of approximately HK$43.9 million. Operating margin improved from a loss of 20.6% in FY2010 to an operating profit margin of 8.8% in FY2011. The increase in operating profit was mainly attributable to the growth in the Group's turnover, whilst the increase in operating profit margin was primarily due to the successful implementation of various cost controlling measures and the Group's focus in delivering high-end products and services of quality being accepted by customers. Basic earnings per share was HK6.07 cents as compared to loss per share of HK5.70 cents for the same period last year.

Dividend per share

The Board recommended payment of a final dividend of HK2.88 cents per share subject to approval of the shareholders of the Company at the forthcoming Annual General Meeting. Together with the interim dividend of HK1.4 cents paid during the year, the total dividend for the year ended 31 March 2011 will be HK4.28 cents per share. This indicates an approximately 70% dividend payout ratio of the current year profit.

Liquidity and capital resources

The Group generally finances our liquidity requirements through the receipts from sales of prepaid beauty packages and settlement of credit card prepayment transactions with banks. We continued to hold abundant cash and cash equivalents of approximately HK$323.2 million as at 31 March 2011 (31 March 2010: HK$244.9 million). Our cash is primarily used to pay for the purchase of skincare and wellness products, materials and consumable used in the provision of beauty and wellness services, as well as funding our working capital and normal operating expenses.

Capital expenditure

The total capital expenditure of the Group during the year under review was approximately HK$20.9 million (31 March 2010: HK$153.1 million). The amount was allocated for the acquisition of leasehold improvements, equipment and machinery in connection with the relocation of service and retail network in Hong Kong and upgrade of the Group's computer facilities.

Contingent liabilities and capital commitment

The Board considered that there was no material contingent liabilities as at 31 March 2011. The Group had capital commitment of HK$15.0 million as at 31 March 2011 (31 March 2010: HK$1.5 million) in respect of the purchase of plant and equipment.

Charges on assets

As at 31 March 2011, the Group had pledged bank deposits of HK$7.2 million (31 March 2010: HK$7.2 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign exchange risks and treasury policies

Most of the Group's sales and purchases were denominated in Hong Kong Dollars. However, the continuous appreciation of Renminbi exerted pressures on the Group's operating expenses in Mainland China. We will closely monitor the risk exposures faced by the Group, and will adopt measures necessary to mitigate such exposures. The majority of the Group's current assets were held in fixed and demand deposits, which were in line with the Group's prudent treasury policy.

Management Discussion and Analysis

Human Resources and Training

As at 31 March 2011, the Group had a total workforce of 1,534, of whom 1,355 were based in Hong Kong and 179 were located in the PRC. We recognize that our asset base resides in the talent and the commitment of our people. We believe that investing in our people is investing in the future and our goal is to inspire people and build a culture and environment in which they can grow and succeed.

The delivery of first class beauty and wellness services is built upon a team of qualified experts. Our learning and development initiatives are focused on improving the core functional skills of our people. Over hundreds of in-house learning programs were organized during the year under review, with over hundreds of participants joining through thousands of learning hours. Our programs are designed to be practical and closely linked to our business, with a significant number of seminars conducted by our Chief Executive Officer, thereby allowing mutual communications between the top management and the base staff.

Corporate Social Responsibility

We contribute to the social and economic development of the societies and communities in which we operate through managing our environmental impact in the course of operation. We recognize the risks posed by climate change and understand that business action is crucial for our global efforts to combat climate change. At service centres level, we have specific policies stipulating how to minimize the use of air conditioning. We recognize that water is a scarce and valuable resource and have therefore made efforts to reduce our water consumption. At group level, these efforts were reflected from the reduction of our utilities expenses during the year under review.

We were the co-sponsor of the 4th Hong Kong Yogathon held on 10 April 2011 subsequent to the year under review. Participants who made extra donations would receive a complimentary treatment from "Modern Beauty Salon".

Together with the interim dividend of HK1.4 cents paid during the year, the total dividend for the year ended 31 March 2011 will be HK4.28 cents per share. This indicates approximately a 70% dividend payout ratio of the current year profit.

Investor Relations and Financial Calendar

We believe that proper and effective investor relations management plays an important part in corporate strategic development. During the year, taking advantage of the turnaround of the global economy, as well as in line with the progress of the capital operation of the Company, we proactively and openly maintains stable and good two-way communications with the shareholders, investors and sell-side analysts, as well as the financial media, thus further consolidating and strengthening investor confidence and enhancing the corporate investment value.

Investor Relations Strategy and Policy

Our investor relations strategy has always been based on the grounds of proper information disclosure, strengthening two-way communications with the shareholders and investors, and enhancement of transparency and corporate governance level of the Company, with the aim of increasing the investment value of the Company. We communicate with the shareholders and investors in an honest, equal and active manner through fair, just and open channels. The investment value of the Company could be enhanced through promoting better understanding and recognition of the Company among the investors and shareholders.

Continuous and Effective Communication to Manage Investor Expectation

Our senior management believes that good investor relations management is an important element of high level of corporate governance. Therefore, we have dedicated investor relations officers being responsible for setting up a bridge for sharing discloseable information between the Company and the shareholders and the investors. Through this bridge, on one hand, the Company can provide up-to-date, accurate and complete corporate information, including the latest operating conditions and the development strategy of the Company, to the shareholders, investors and analysts to increase their knowledge in the Company, enabling them to assess the investment value of the Company effectively and properly managing investor expectation. On the other hand, through close and effective communication with the shareholders and investors, the Company can also learn about their expectations and opinions on the

FINANCIAL CALENDAR

Last day to register for 2011 Annual General Meeting	*12 August 2011*
Closure of Register of Members for 2011 Annual General Meeting	*15 August 2011 to 17 August 2011, both dates inclusive*
2011 Annual General Meeting	*17 August 2011*
Last day to register for entitlement to 2011 final dividend	*23 August 2011*
Closure of Register of Members for entitlement to 2011 final dividend	*24 August 2011 to 26 August 2011, both dates inclusive*
Record date for entitlement to 2011 final dividend	*26 August 2011*
Payment of 2011 final dividend	*16 September 2011*

development of the Company and the main driver and the method when they consider to invest in the Company as valuable reference information for the management when formulating decisions, hereby further enhancing its corporate governance and transparency and facilitating its sustainable development in order to build up a solid foundation for greater investment value of the Company.

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 2011:	*723,520,000 shares*
Board lot:	*4,000 shares*
Nominal value:	*HK$0.10 per share*
Market Capitalization as at 31 March 2011:	*HK$622 million (based on the closing price as at 31 March 2011, being the last trading date of the year, of HK$0.86)*

Stock Codes

Stock Exchange:	*919*
Reuters:	*0919.HK*
Bloomberg:	*919 HK*

Prudent Management Team

Biography of Directors and Senior Management

Executive Directors

Ms. Tsang Yue, Joyce
Aged 50, is the Executive Director and Chairperson of the Board, the Chief Executive Officer of the Group, and the Chairpersons of each of the Remuneration Committee and Nomination Committee of the Company. She is the founder and substantial shareholder of the Company as well as a veteran in the beauty and wellness industry who has profound understanding and distinctive expertise on how to originate and capitalize on the trends and changes in the market. Her wealth of knowledge in the business and her unique vision in corporate management had enabled to spearhead business growth at the Group in a dynamic manner. Ms. Tsang is also devoted to community and welfare activities. She is the director of the board of Pok Oi Hospital since 2009. She is also the founder and chairperson of Grateful Heart Charitable Foundation Limited and the founder and dean of Beauty Expert International College. Ms. Tsang is the spouse of Mr. Lee Soo Ghee (an Executive Director of the Company resigned on 15 September 2010) and the mother of Mr. Kwong Chi Ching (an Executive Director of the Company resigned on 15 September 2010). Ms. Tsang was the Executive Director, Chief Executive Officer and Chairperson of the Company up to 26 November 2008 and has been re-appointed for such positions on 16 April 2010.

Mr. Yip Kai Wing
Aged 37, is the Chief Technology Officer and an Executive Director of the Company. Mr. Yip is responsible for all computer and information system matters of the Group. Mr. Yip brings with him about ten 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. Wong Shu Pui
Aged 44, is an Executive Director of the Company, a Solicitor admitted in Hong Kong. He joined the Group in April 2008 as Legal Consultant and has years of experience in many fields. Mr. Wong is now appointed to provide leading legal advice and support to all the Group's major business projects and activities.

Mr. Leung Man Kit
Aged 34, is an Executive Director and the Chief Financial Officer of the Group. He is responsible for the financial planning and monitoring, business development and taxation of the Group. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants as well as Fellow Member of the Association of International Accountants, Fellow Member of the Taxation Institute of Hong Kong and also a Member of The Hong Kong Institute of Directors. Mr. Leung holds a Master Degree of Business Administration in Financial Management from The University of Hull in United Kingdom. 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.

Independent Non-Executive Directors

Ms. Liu Mei Ling, Rhoda
Aged 49, was appointed as an Independent Non-Executive Director in December 2009. Ms. Liu is a Member of the Canadian Institute of Chartered Accountants, Fellow Practicing Member of the Hong Kong Institute of Certified Public Accountants, Fellow Member of the Taxation Institute of Hong Kong, and Fellow Member of the Hong Kong Institute of Directors. Ms. Liu holds a Bachelor of Art degree in Commercial Studies and Finance from University of Western Ontario in Canada, Professional Degree in China Law from Tsing Hua University in China, and a Master of Business Administration

Degree from McMaster University in Canada. Ms. Liu is a Practicing Certified Public Accountant in Hong Kong and sole proprietor of Liu & Wong, Certified Public Accountants. Ms. Liu is also an independent non-executive director, chairperson of audit committee and member of remuneration committee and nomination committee of Mirach Energy Limited, a company listed on the Singapore Stock Exchange. Save as disclosed above, Ms. Liu did not hold directorship in other listed public companies in the past three years.

Mr. Wong Man Hin, Raymond
Aged 45, was appointed as an Independent Non-Executive Director in December 2009. Mr. Wong is a member of American Institute of Certified Public Accountants (CPA), a Certified Management Accountant (CMA) and holds a certificate in financial management (CFM). Mr. Wong holds a bachelor degree in chemical engineering and a master degree in economics. Mr. Wong is an executive director and deputy chairman of Raymond Industrial Limited (stock code: 229), a company listed on the Main Board of the Stock Exchange. Mr. Wong is also an independent non-executive director of International Resources Enterprise Limited (stock code: 1229), a company listed on the Main Board of the Stock Exchange. Mr. Wong was an independent non-executive director of Fulbond Holdings Limited (stock code: 1041) during the period from 8 December 2006 to 5 August 2009. Mr. Wong was an independent non-executive director of BEP International Holdings Limited (stock code: 2326) during the period from 9 October 2007 to 5 June 2009. Mr. Wong was also an independent non-executive director of ERA Holdings Global Ltd. (stock code: 8043) during the period from 17 August 2007 to 25 February 2008.

Mr. Hong Po Kui, Martin
Aged 61, was appointed as an Independent Non-Executive Director in December 2009. Mr. Hong has been practicing as a solicitor of the High Court of the Hong Kong Special Administrative Region for over 33 years and is a notary public in Hong Kong. Mr. Hong is now the senior partner of Messrs. Lau Chan & Ko, Solicitors & Notaries. Mr. Hong is also an independent non-executive director of Sau San Tong Holdings Limited (stock code: 8200), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Hong was an independent non-executive director of BEP international Holdings Limited (stock code: 2326) from 9 October 2007 to 3 June 2009, an independent non-executive director of Simsen International Corporation Limited (stock code: 993) from November 2004 to 23 April 2010, an independent non-executive director of Victory Group Limited (stock code: 1139) from 10 June 2009 to 11 January 2010 and an independent non-executive director of Fulbond Holdings Limited (stock code: 1041) from December 2006 to 29 June 2011.

Senior Management

Ms. Yeung See Man
Aged 37, 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.

Ms. Ip Lai Fong
Aged 39, 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.

Corporate Governance Report

The Company is committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value, which emphasize transparency, accountability and independence. During the year ended 31 March 2011, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except for the deviation from Code provision A.2.1 as discussed in the section headed "Chairman and Chief Executive Officer" below.

The Board

Board Composition

The Board is currently composed of four Executive Directors and three Independent Non-executive Directors. The Board considers this composition to be balanced and to reinforce a stronger independent review and monitoring function on overall management practices. All of the Independent Non-executive Directors have the appropriate professional or accounting qualifications required by Rule 3.10(2) of the Listing Rules. Directors' biographical details and relevant relationships are set out in the section headed "Biography of Directors and Senior Management" on pages 30 to 31.

Chairman and Chief Executive Officer

Mr. Lee Soo Ghee was the Chairperson and Chief Executive Officer of the Company until his resignation on 16 April 2010 and Ms. Tsang Yue, Joyce ("Ms. Tsang") has been re-appointed as the Chairperson and Chief Executive Officer of the Company since that date. Currently, Ms. Tsang is both the Chairperson and Chief Executive Officer of the Company.

Code provision A.2.1. of the Code stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

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 senior management of the Group.

Roles and Responsibilities of the Board

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. The Board has the functions of considering and approving the strategies, financial objectives, annual budget and investment proposals of the Group. The Independent Non-executive Directors, who combine to offer diverse industry expertise, serve the important function of advising the management on strategy and ensuring that the Board maintains high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

Delegation to Management

Day-to-day operational responsibilities are specifically delegated by the Board to the management under the leadership of the Chief Executive Officer. Major matters include implementation of the strategies and decisions approved by the Board and the management assumes full responsibility to the Board for operations of the Group.

Board and Committee Meetings

The Board conducts meeting on a regular basis and also as and when required. Board meetings are scheduled in advance to facilitate maximum attendance by Directors. The Company Secretary assists the Chairperson in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Senior Management is invited to join all Board meetings to enhance the Board and management communication.

Corporate Governance Report

During the year under review, save for executive Board meetings held between executive Directors during the normal course of business of the Company, the Board has held 4 board meetings. A summary of Board and Committee meetings in FY2011 is set out in the following table:

Board and Committee Meetings for FY2011

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Executive Director				
Ms. Tsang Yue, Joyce[1] (re-appointed on 16 April 2010)	1/3	N/A	N/A	1/1
Mr. Lee Soo Ghee (resigned on 15 September 2010)	2/2	N/A	1/1	1/1
Mr. Yip Kai Wing	3/4	N/A	N/A	N/A
Mr. Tung Kwok Lui (resigned on 20 May 2011)	4/4	N/A	N/A	N/A
Mr. Wong Shu Pui	3/4	N/A	N/A	N/A
Mr. Kwong Chi Ching (resigned on 15 September 2010)	2/2	N/A	N/A	N/A
Mr. Leung Man Kit (appointed on 15 September 2010)	2/2	N/A	N/A	N/A
Independent Non-Executive Director				
Ms. Liu Mei Ling, Rhoda[2]	4/4	2/2	1/1	2/2
Mr. Wong Man Hin, Raymond	4/4	2/2	1/1	2/2
Mr. Hong Po Kui, Martin	4/4	2/2	1/1	2/2

Notes:

1. Chairperson of the Board and the Chairpersons of each of the Remuneration Committee and Nomination Committee of the Company since 16 April 2010.

2. Chairperson of the Audit Committee of the Company.

Independence of Independent Non-executive Directors

Each Independent Non-executive Director is required to give a written annual confirmation of their independence and having satisfied that independence up to the approval date of this report, and to inform the Company as soon as practicable if there is any change that may affect his independence.

Appointment and Re-election of the Directors

The appointment of a new director must be approved by the Board. The Board has delegated to the Nomination Committee to select and recommend candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The basis for the Nomination Committee to select and recommend candidates emphasize appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills, and possible time commitments to the Board and 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 including Independent Non-executive Directors shall be eligible for re-election. 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. Pursuant to Article 115 of the Company's Articles of Association, each of the three independent non-executive directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin held office until the Annual General Meeting held on 27 August 2010, and each of them had entered into a letter of appointment dated 27 August 2010 for a term of three years commencing from 27 August 2010, subject to, inter alia, retirement from office by rotation at least once every three years and re-election in accordance with the Company's articles of association.

The members of the Board have no financial, business, family or other material/relevant relationship with each other except that Ms. Tsang Yue, Joyce, the Chairperson and Chief Executive Officer, re-appointed on 16 April 2010, is the spouse of Mr. Lee Soo Ghee (resigned on 15 September 2010), and Mr. Kwong Chi Ching (resigned on 15 September 2010) is the son of Ms. Tsang Yue, Joyce.

Board Committees

The Board has established the following committees with defined terms of reference, which are on no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules:

- Audit Committee
- Nomination Committee
- Remuneration Committee

Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. Minutes of all committees meetings are circulated to their members. To further reinforce independence and effectiveness, all Audit Committee members are Independent Non-executive Directors, and the Nomination and Remuneration Committees have been structured with a majority of Independent Non-executive Directors as members.

Audit Committee

The Audit Committee reviews the Group's financial reporting, internal controls and corporate governance issues and makes relevant recommendations to the Board. The Audit Committee is chaired by Ms. Liu Mei Ling, Rhoda, an Independent Non-executive Director and all Audit Committee members are Independent Non-executive Directors. All Audit Committee members possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

During the year under review, the Audit Committee met twice and the work performed by the Audit Committee is summarized as follows:

a. approval of the remuneration and terms of engagement of the external auditor;

b. review of the external auditor's independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

c. review of the interim and annual financial statements before submission to the Board;

d. discussion with the external auditor before the audit commences, the nature and scope of the audit;

e. review of the audit programme of the internal audit function; and

f. review of the Group's financial controls, internal control and risk management systems.

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2011 in conjunction with the Company's auditor prior to their approval by the Board.

Nomination Committee

The Nomination Committee is chaired by Ms. Tsang, our Chairperson of the Board and the other members are the three independent non-executive directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin. Its written terms of reference cover recommendations to the Board on the appointment of Directors, evaluation of board composition, assessment of the independence of Independent Non-executive Directors and the management of board succession.

During the year under review, the Nomination Committee met one time and the work performed by the Nomination Committee is summarized as follows:

a. the review of the structure and composition of the Board;

b. the nomination of a new director for approval by the Board; and

c. the succession and development plans for executives and managers.

Remuneration Committee

The Remuneration Committee is chaired by Ms. Tsang Yue, Joyce, our Chairperson of Board and the other members are the three independent non-executive directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin. The Remuneration Committee's responsibilities as set out in its written terms of reference include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management according to the policies as prescribed. Such policies are to link total compensation for senior management with the achievement of annual and long term performance goals. By providing total compensation at competitive industry levels for delivering on-target performance, the Group seeks to attract, motivate and retain the key executives essential to its long term success.

Corporate Governance Report

During the year under review, the Remuneration Committee met twice and the work performed by the Remuneration Committee is summarized as follows:

a. reviews on remuneration policy, organisational structure and human resources deployment;

b. an annual review on remuneration of executive directors and senior management; and

c. a review on the compensation and benefits for directors and senior management.

Auditors' Remuneration

During the year ended 31 March 2011, the remuneration paid/payable to the Company's external auditor, RSM Nelson Wheeler, for providing the audit and other non-audit services as follow:

	Fee paid/ payable HK$'000
Audit services	**1,280**
Non-audit services	**550**

Directors' Responsibilities for accounts and Auditor's Responsibility

The Directors' responsibility for preparing the accounts is set out on page 49, and the auditor's reporting responsibility is set out on page 49.

Internal Control and Risk Management

The Board is responsible for maintaining a sound and effective system of internal controls in the Group and for reviewing its effectiveness through the Audit Committee. Such system is designed to manage the risk of failure to achieve corporate objectives. It aims to provide reasonable but not absolute assurance against material misstatement, loss or fraud.

The Board has delegated to executive management the design, implementation and ongoing assessment of such systems of internal controls, while the Board through its Audit Committee oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures that have been in place. Qualified personnel throughout the Group maintain and monitor these systems of controls on an ongoing basis.

Based on the results of evaluations and representations made by the senior management, the Audit Committee is satisfied that:

- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and

- an appropriate system of internal control and risk management has been in place for the year ended 31 March 2011, and up to the date of approval of this report.

Model Code for Securities Transactions by Directors

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. Specific confirmation has been obtained from each Director to confirm compliance with the Model Code for the year under review.

Investor Relations and Communications

The Company has a proactive policy for promoting investor relations and communications by maintaining regular dialogue and fair disclosure with investors, analysts and the media. On the other hand, the Group's Annual General Meeting ("AGM") provides another channel for the Chairperson and the senior management to meet and communicate with shareholders, who are likewise encouraged to participate. All shareholders are provided 21 days' notice to attend the AGM, during which the Chairperson and the senior management are available to answer questions. The results of the voting by poll are published on the Group's website together with details of the meeting, including the time, venue and major resolutions.

Our website (www.modernbeautysalon.com) facilitates effective communications with shareholders and investors, making corporate information and other relevant financial and non-financial information available electronically and on a timely basis. The Group also values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcomed and can be addressed to the Investors Relation Department by mail or by email to the Group at ir@modernbeautysalon.com.

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 Listing Rules.

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for FY2011.

Principal Activities

The principal activities of the Company is investment holding. And the principal activities of the Group continued throughout FY 2011 was provision of beauty and wellness services and sales of skincare and wellness products. Details of the Company's principal subsidiaries as at 31 March 2011 are set out in notes 18 to the financial statements.

The turnover and results of the Group are principally derived from the provision of beauty and wellness services in Hong Kong and the PRC. The Group's turnover and results by reportable segment are set out in note 6 to the financial statements. A detailed review of the development of the business of the Group during the year, and likely future prospects, is set out in the sections headed "Chairperson's Statement" and "Management Discussion and Analysis" of this Annual Report.

Results and Appropriations

The results of the Group for FY2011 are set out in the consolidated statement of comprehensive income on page 51.

An interim dividend of HK1.4 cents per share, amounting to HK$10,129,280, was paid to shareholders during the year under review (FY2010:Nil).

The Directors are pleased to recommend the payment of a final dividend of HK2.88 cents per share amounting to HK$20,837,376 during the year under review (FY2010: Nil, but a special dividend of HK2.8 cents per share was paid, totaling HK$20,258,560), subject to the final approval at the Annual General Meeting to be held on 17 August 2011.

The Annual General Meeting of the Company is scheduled on Wednesday, 17 August 2011. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Monday, 15 August 2011 to Wednesday, 17 August 2011, both days inclusive, during which period no transfer of share will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 12 August 2011.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is 26 August 2011. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 24 August 2011 to Friday, 26 August 2011, both days inclusive, during which period no transfer of share will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Tuesday, 23 August 2011. The payment of final dividend will be made on Friday, 16 September 2011.

Report of the Directors

Reserves

Movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on pages 55 and note 25 to the financial statements respectively.

Distributable Reserves

As at 31 March 2011, the Company's reserve available for distribution amounted to approximately HK$283 million. Movements in reserves of the Company during the year and the distributable reserves of the Company as at 31 March 2011 are set out in note 25 to the financial statements.

Financial Summary

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 96. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

During the year, the Group spent approximately HK$21 million on additions to property, plant and equipment mainly for the expansion and enhancement of its service capability and relocation purpose.

Details of movements in the Group's property, plant and equipment during the year are set out in note 16 to the financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Charitable Donations

During the year, the Group made donations of approximately HK$115,000 to charitable and non-profit-making organisations.

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Ms. Tsang Yue, Joyce (Chairperson and Chief Executive Officer, re-appointed on 16 April 2010)
Mr. Leung Man Kit (Appointed on 15 September 2010)
Mr. Yip Kai Wing
Mr. Wong Shu Pui
Mr. Kwong Chi Ching (Resigned on 15 September 2010)
Mr. Lee Soo Ghee (Resigned on 15 September 2010)
Mr. Tung Kwok Lui (Resigned on 20 May 2011)

Independent Non-Executive Directors

Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin
Ms. Liu Mei Ling, Rhoda

Pursuant to Article 130 of the Company's Articles of Association, Mr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Ms. Liu Mei Ling, Rhoda will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Pursuant to Article 115 of the Company's Articles of Association, Mr. Leung Man Kit shall hold office until the forthcoming Annual General Meeting and being eligible, offer himself for re-election at the forthcoming Annual General Meeting. Particulars of Directors seeking for re-election at the forthcoming Annual General Meeting are set out in the related circular to shareholders.

The Company has received from each Independent Non-executive Director an annual confirmation of his or her independence as regard each of the factors referred to in Rule 3.13 (1) to (8) of the Listing Rules and the Company considered all of them to be independent.

Directors' Service Contracts

Pursuant to Article 115 of the Company's Articles of Association, each of the three Independent Non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin held office until the Annual General Meeting held on 27 August 2010, and each of them had entered into a letter of appointment dated 27 August 2010 for a term of three years commencing from 27 August 2010, subject to, inter alia, retirement from office by rotation at least once every three years and re-election in accordance with the Company's articles of association.

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.

Report of the Directors

Directors' Interests in Contracts

Save as disclosed above, in the paragraph headed "Connected Transactions" and in note 32 to the 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 skincare and wellness 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 2011. 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). Due to corporate restructuring reorganisation plans occurred between 2008 and 2009, certain subsidiaries of JF (Singapore) Group have been transferred to a corporation wholly owned by Ms. Tsang Yue, Joyce.

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.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying shares or Debentures

As at 31 March 2011, the interests and short positions of the Directors and the Chief Executive 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 (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

Long positions in Shares and underlying Shares in the Company

Name of Director	Capacity in which interests are held	Interests in Shares	Equity Derivatives (Share Options)	Total Interests	Approximate Percentage of Issued Share Capital of the Company[1]
Ms. Tsang Yue, Joyce	Interests of controlled corporations[2]	468,000,000	–	468,000,000	64.68%
	Founder of discretionary trust	22,376,000	–	22,376,000	3.09%
	Beneficial owner	5,908,000	–	5,908,000	0.82%
	Interest of spouse[3]	650,000	–	650,000	0.09%
Mr. Yip Kai Wing	Beneficial owner	185,000	500,000[4]	685,000	0.09%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 31 March 2011 (i.e. 723,520,000 shares).

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

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

4. The period during which the equity derivatives (share options) under the name of Mr. Yip Kai Wing is exercisable is set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 31 March 2011, none of the Directors and the Chief Executive of the Company nor their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required 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 they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register referred to therein, or notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Directors

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above and in the section headed "Share Option Scheme", at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or the Chief Executives of the Company or any of their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests in Shares

As at 31 March 2011, the interests or short positions of substantial shareholders and other persons of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Long positions of substantial shareholders in the shares and underlying shares of the Company

Name	Capacity in which interests are held	Interests in Shares	Approximate Percentage of Issued Share Capital of the Company[1]
Ms. Tsang Yue, Joyce	Interests of controlled corporations[2]	468,000,000	64.68%
	Founder of discretionary trust	22,376,000	3.09%
	Beneficial owner	5,908,000	0.82%
	Interest of spouse[3]	650,000	0.09%
Mr. Lee Soo Ghee	Beneficial owner	650,000	0.09%
	Interest of spouse[4]	496,284,000	68.59%
Silver Compass Holdings Corp.	Beneficial owner[5]	367,200,000	50.75%
Silver Hendon Enterprises Corp.	Beneficial owner[5]	100,800,000	13.93%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 31 March 2011 (i.e. 723,520,000 shares).

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

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

4. 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.

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

Apart from the above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 31 March 2011.

Share Option Scheme

On 20 January 2006, the Company has established a share option scheme ("Share Option Scheme") and the Board of Directors (the "Board") may, at their discretion, 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 one to six years after the vesting 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 Option Scheme is set out as follows:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to give employees 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.

Report of the Directors

(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 during the year under review were as follows:

Name	Balance as at 1 April 2010	No. of options granted during the year under review	Reclassification	No. of options cancelled/ lapsed during the year under review	No. of options as at 31 March 2011	Date of grant	Period during which options are exercisable	Exercise price	Approximate percentage of share per issued share (Note 1)
Executive Directors									
Mr. Lee Soo Ghee (Note 2)	337,500	–	–	(337,500)	–	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	N/A
Mr. Lee Soo Ghee (Note 2)	472,500	–	–	(472,500)	–	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	N/A
Mr. Lee Soo Ghee (Note 2)	540,000	–	–	(540,000)	–	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	N/A
Mr. Yip Kai Wing	125,000	–	–	–	125,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.02%
Mr. Yip Kai Wing	175,000	–	–	–	175,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.02%
Mr. Yip Kai Wing	200,000	–	–	–	200,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.03%
Mr. Kwong Chi Ching (Note 2)	50,000	–	(50,000)	–	–	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	N/A
Mr. Kwong Chi Ching (Note 2)	70,000	–	(70,000)	–	–	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	N/A
Mr. Kwong Chi Ching (Note 2)	80,000	–	(80,000)	–	–	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	N/A
Others	1,682,500	–	50,000	(150,000)	1,582,500	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.22%
Others	2,355,500	–	70,000	(210,000)	2,215,500	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.31%
Others	2,692,000	–	80,000	(240,000)	2,532,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.35%
Total	8,780,000	–	–	(1,950,000)	6,830,000				

Note:

1. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2011, i.e. 723,520,000 shares.

2. Mr. Lee Soo Ghee resigned as Executive Director on 15 September 2010 and resigned as Chief Administrative Officer on 16 September 2010 while Mr. Kwong Chi Ching resigned as Executive Director on 15 September 2010.

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, the aggregate purchases attributable to the Group's largest supplier accounted for approximately 10% (2010: 5%) of the Group's total purchase for the year and the five largest suppliers taken together accounted for approximately 35% (2010:22%) of the Group's total purchase for the year.

The five largest customers of the Group in aggregate accounted for less than 5% of the total sales.

None of the Directors, their associates, or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest suppliers and customers.

Connected Transactions

Certain transactions entered into by the Group constituted continuing connected transactions under the Listing Rules during the year under review, in respect of which the Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Details of these transactions required to be disclosed are set out as follows:

A. The following continuing connected transaction are exempt from the independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules by reason that the transactions are on normal commercial terms and the total amount of the transactions 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 16 September 2009, 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 (HK) Limited, a wholly-owned subsidiary of the Company included in the Group, pursuant to which Modern Beauty Salon (HK) 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 2012, both dates inclusive.

Before termination of the Kam Shan Tenancy Agreement as mentioned below, the premises was being used as a service centre of the Company in Shatin, which was 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$930,323 for the year ended 31 March 2011 (2010: 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 10 September 2009, 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.

The Kam Shan Tenancy Agreement was terminated in October, 2010.

Report of the Directors

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 (HK) 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 (HK) 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$9,600,000 for the year ended 31 March 2011 (2010: HK$9,600,000). 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 shareholder's approval requirement under Rule 14A.33 of the Listing Rules and are included for information only.

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

On 1 January 2009, Chain Tech International Limited and Modern Beauty Salon (HK) Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "Carnarvon Road Tenancy Agreement") pursuant to which Modern Beauty Salon (HK) 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 Carnarvon Road Tenancy Agreement is three years ending on 31 December 2011, both dates inclusive.

The rental paid by the Group in relation to the premises under the New Carnarvon Road Tenancy Agreement amounted to HK$336,000 for the year ended 31 March 2011 (2010: 336,000).

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 (HK) 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, both dates inclusive.

Up to termination of the Peace Avenue Tenancy Agreement as mentioned below, the rental paid by the Group in relation to the premises with respect of the Peace Avenue Tenancy Agreement amounted to HK$160,000 for the year ended 31 March 2011 (2010: HK$960,000).

The Peace Avenue Tenancy Agreement was terminated in May 2010.

C. The following transactions have been approved by independent shareholders at an Extraordinary General Meeting held on 30 October 2009.

On 23 September 2009, Modern Beauty Management Company Limited ("Modern Beauty Management"), a wholly-owned subsidiary of the Company and All Link International Limited ("All Link"), a company controlled by Ms. Tsang Yue, Joyce entered into a disposal agreement in which Modern Beauty Management has conditionally agreed to sell the entire issued share capital of each of East Union Industries Limited, Joy East Limited, Well Faith International Enterprise Limited and Wise World Limited ("Disposal Group"), each of which is an indirect wholly-owned subsidiary of the Company and the debt due by the Disposal Group to Modern Beauty Management of approximately HK$114.0 million to All Link at the aggregate consideration of HK$190.0 million ("the Disposal"). The principal assets of the Disposal Group are the properties in Hong Kong as follow:

Address of Properties

(i) 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

(ii) 18th Floor, Hou Feng Industrial Building, Nos. 1-5 Wing Kin Road, Kwai Chung, New Territories

(iii) Workshop Nos. 2-3 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

(iv) 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

(v) Shop 1 on Ground Floor, Len Fat Mansion, Nos. 56-60, 64-86 Kin Yip Street, Yuen Long, New Territories and 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

(vi) 1st and 2nd Floor, The Grandeur, No.47 Jardine's Bazaar, Hong Kong

(vii) 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

(viii) Workshop Units 401, 404A, 404B and 405, 4th Floor, Hong Kong Worsted Mills Industrial Building, Nos. 31-39, Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong

At the time of the Disposal, the above properties (i) to (vii) were used by the Group as its operating facilities.

As part of the whole arrangement in respect of the Disposal, upon the completion of this transaction, the Group (as tenant) and the relevant Disposal Group (as landlord) has entered into the Lease Agreements in respect of each of the above properties (i) to (vii) at an aggregate annual rental of HK$8.82 million for a term for three years commencing from the completion date of the Disposal, which was completed on 13 November 2009.

Tenancy agreement of the above property (vii) was terminated in April 2010.

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.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to report on the Continuing Connected Transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed in writing to the Board of Directors that nothing has come to its attention that causes it to believe that the Continuing Connected Transactions

(i) have not been approved by the Board of Directors of the Company;

(ii) were not entered into in accordance with the relevant agreements governing the transactions; and

(iii) have exceeded the respective annual caps for the year under review as disclosed in the relevant announcements of the Company.

The Company confirms that it has complied with the disclosure requirements, where appropriate, in accordance with Chapter 14A of the Listing Rules.

Report of the Directors

Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Purchase, Sale or Redemption of Listed Securities of the Company

During the year ended 31 March 2011, 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 Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2011 in conjunction with the Company's external auditor prior to their approval by the Board. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on page 35.

Corporate Governance

The Company's corporate governance practices are set out in Corporate Governance Report on page 33 of this annual report.

Auditor

The financial statements for FY2011 have been audited by RSM Nelson Wheeler, who retire and, being eligible, offer itself for re-appointment at the AGM. A resolution for the re-appointment of RSM Nelson Wheeler as auditor of the Company will be proposed at the forthcoming AGM.

In the financial year ended on 31 March 2010, RSM Nelson Wheeler was appointed by the Directors as auditor of the Company to fill the casual vacancy following the resignation of PricewaterhouseCoopers, other than that, there was no other change of auditor in the past three years.

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

Hong Kong, 29 June 2011

Independent Auditor's Report

RSM! Nelson Wheeler
中瑞岳華(香港)會計師事務所
Certified Public Accountants

TO THE SHAREHOLDERS OF
MODERN BEAUTY SALON HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 94, which comprise the consolidated and Company statements of financial position as at 31 March 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2011, and of the Group's results 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.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
29 June 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	7	**586,527**	430,750
Other income	8	**16,661**	5,928
Cost of inventories sold		**(18,708)**	(15,319)
Advertising costs		**(9,633)**	(8,839)
Building management fees		**(13,938)**	(18,242)
Bank charges		**(27,534)**	(23,775)
Employee benefit expenses	9	**(297,982)**	(254,108)
Depreciation		**(38,506)**	(42,864)
Occupancy costs		**(102,057)**	(108,777)
Other operating expenses		**(43,348)**	(53,618)
Operating profit/(loss)		**51,482**	(88,864)
Interest income		**328**	267
Finance costs	10	**–**	(2,387)
Gain on disposals of subsidiaries	29(a)	**–**	36,592
Profit/(loss) before tax		**51,810**	(54,392)
Income tax (expense)/credit	11	**(7,835)**	13,147
Profit/(loss) for the year	12	**43,975**	(41,245)
Other comprehensive income after tax for the year:			
Gain on property revaluation		**29,798**	–
Exchange differences on translating foreign operations		**745**	200
Other comprehensive income for the year, net of tax		**30,543**	200
Total comprehensive income/(loss) for the year		**74,518**	(41,045)
Profit/(loss) for the year attributable to:			
Owners of the Company		**43,918**	(41,245)
Non-controlling interests		**57**	–
		43,975	(41,245)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**74,461**	(41,045)
Non-controlling interests		**57**	–
		74,518	(41,045)
Earnings/(loss) per share (HK cents)	15		
– Basic		**6.07**	(5.70)
– Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

At 31 March 2011

	Note	At 31 March 2011 HK$'000	At 31 March 2010 HK$'000 (Restated)	At 1 April 2009 HK$'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	16	**50,588**	201,059	243,781
Investment properties	17	**175,400**	–	–
Trade and other receivables, deposits and prepayments	19	**18,494**	24,037	21,578
Deferred tax assets	20	**18,744**	26,190	9,701
		263,226	251,286	275,060
Current assets				
Inventories	21	**9,418**	6,492	9,403
Trade and other receivables, deposits and prepayments	19	**167,984**	171,372	138,180
Current tax assets		**3,085**	5,566	39,866
Pledged bank deposits	22	**7,160**	7,155	9,412
Cash and cash equivalents	23	**323,164**	244,905	137,826
		510,811	435,490	334,687
Total assets		**774,037**	686,776	609,747
EQUITY				
Capital and reserves				
Share capital	24	**72,352**	72,352	72,352
Reserves	25	**231,852**	186,847	226,560
Equity attributable to owners of the Company		**304,204**	259,199	298,912
Non-controlling interests		**79**	–	–
Total equity		**304,283**	259,199	298,912
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	20	**–**	–	1,055

	Note	**At 31 March 2011 HK$'000**	At 31 March 2010 HK$'000 (Restated)	At 1 April 2009 HK$'000 (Restated)
Current liabilities				
Trade and other payables, deposits received and accrued expenses	27	**53,233**	48,629	53,556
Deferred revenue	28	**413,695**	376,565	254,414
Current tax liabilities		**2,826**	2,383	1,810
		469,754	427,577	309,780
Total liabilities		**469,754**	427,577	310,835
Total equity and liabilities		**774,037**	686,776	609,747
Net current assets		**41,057**	7,913	24,907
Total assets less current liabilities		**304,283**	259,199	299,967

Approved by the Board of Directors on 29 June 2011

Yip Kai Wing
Director

Leung Man Kit
Director

Statement of Financial Position

At 31 March 2011

	Note	**2011 HK$'000**	2010 HK$'000
ASSETS			
Non-current assets			
Investment in a subsidiary	18	**101,076**	101,076
Current assets			
Amount due from a subsidiary	18	**146,641**	223,626
Prepayments		**36**	–
Cash and cash equivalents	23	**107,704**	61,199
		254,381	284,825
Total assets		**355,457**	385,901
EQUITY			
Capital and reserves			
Share capital	24	**72,352**	72,352
Reserves	25	**283,103**	313,548
Total equity		**355,455**	385,900
LIABILITIES			
Current liabilities			
Other payables		**2**	1
Total liabilities		**2**	1
Total equity and liabilities		**355,457**	385,901
Net current assets		**254,379**	284,824
Total assets less current liabilities		**355,455**	385,900

Approved by the Board of Directors on 29 June 2011

Yip Kai Wing
Director

Leung Man Kit
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Share-based compensation reserve HK$'000	Merger reserve HK$'000	Foreign currency translation reserve HK$'000	Property revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 April 2009	72,352	146,875	3,248	(53,982)	2,046	–	128,373	298,912	–	298,912
Total comprehensive loss for the year	–	–	–	–	200	–	(41,245)	(41,045)	–	(41,045)
Share-based payments	–	–	1,332	–	–	–	–	1,332	–	1,332
Lapse of share options	–	–	(1,316)	–	–	–	1,316	–	–	–
Changes in equity for the year	–	–	16	–	200	–	(39,929)	(39,713)	–	(39,713)
Balance at 31 March 2010 and 1 April 2010	72,352	146,875	3,264	(53,982)	2,246	–	88,444	259,199	–	259,199
Total comprehensive income for the year	–	–	–	–	745	29,798	43,918	74,461	57	74,518
Partial disposal of a subsidiary	–	–	–	–	–	–	(17)	(17)	22	5
Share-based payments	–	–	949	–	–	–	–	949	–	949
Lapse of share options	–	–	(936)	–	–	–	936	–	–	–
2010 special dividends paid	–	–	–	–	–	–	(20,259)	(20,259)	–	(20,259)
2011 interim dividends paid	–	–	–	–	–	–	(10,129)	(10,129)	–	(10,129)
Changes in equity for the year	–	–	13	–	745	29,798	14,449	45,005	79	45,084
Balance at 31 March 2011	72,352	146,875	3,277	(53,982)	2,991	29,798	102,893	304,204	79	304,283

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Note	**2011 HK$'000**	2010 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**51,810**	(54,392)
Adjustments for:			
Depreciation of property, plant and equipment		**38,506**	42,864
Interest income		**(328)**	(267)
Finance costs		**–**	2,387
Equity-settled share-based payments		**949**	1,332
Gain on disposals of subsidiaries		**–**	(36,592)
Gain on revaluation of investment properties		**(12,600)**	–
Loss on disposals of property, plant and equipment		**–**	1,472
Operating profit/(loss) before working capital changes		**78,337**	(43,196)
(Increase)/decrease in inventories		**(2,926)**	2,911
Decrease/(increase) in trade and other receivables, deposits and prepayments	29(b)(i)	**7,936**	(54,980)
Increase /(decrease) in trade and other payables, deposits received and accrued expenses		**4,604**	(4,886)
Increase in deferred revenue		**36,894**	122,068
Cash generated from operations		**124,845**	21,917
Interest received		**328**	267
Interest paid		**–**	(2,387)
Income tax refunded		**2,634**	32,176
Net cash generated from operating activities		**127,807**	51,973
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	29(b)(i)	**(19,854)**	(135,984)
Disposals of subsidiaries	29(a)	**–**	70,580
Proceeds from disposals of property, plant and equipment		**–**	62
(Increase)/decrease in pledged bank deposits		**(5)**	2,257
Net cash used in investing activities		**(19,859)**	(63,085)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan from ultimate controlling party	29(b)(ii)	**–**	118,000
Dividends paid		**(30,388)**	–
Net cash (used in)/generated from financing activities		**(30,388)**	118,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**77,560**	106,888
Effect of foreign exchange rate changes		**699**	191
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**244,905**	137,826
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**323,164**	244,905

Notes to the Financial Statements

For the year ended 31 March 2011

1. General Information

The Company was incorporated in the Cayman Islands with limited liability. 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 address of its principal place of business is 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the financial statements.

The Group is controlled by Silver Compass Holdings Corp. ("SCHC"), a company 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 Corp. ("SHEC") and 35% are widely held. Both SCHC and SHEC are wholly owned by Ms. Tsang Yue, Joyce ("Ms. Tsang"). In the opinion of the directors of the Company, SCHC is the ultimate holding company; and Ms. Tsang, who is also a director of the Company, is the ultimate controlling party of the Company.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 April 2010. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

(a) Classification of land leases

Amendments to HKAS 17 "Leases" deleted the guidance in HKAS 17 that when the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

The Group reclassifies a land lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the Group e.g. at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the land.

Amendments to HKAS 17 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	At 31 March 2011 HK$'000	At 31 March 2010 HK$'000	At 1 April 2009 HK$'000
Increase in property, plant and equipment	**123,991**	125,615	115,884
Decrease in leasehold land prepayments	**(123,991)**	(125,615)	(115,884)

Notes to the Financial Statements

For the year ended 31 March 2011

2. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

(b) Consolidation

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" contains the following requirements:

– Total comprehensive income is attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance. The previous HKAS 27 requires excess losses to be allocated to the owners of the Company, except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

– Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company. The previous HKAS 27 does not have specific requirements for such transactions.

– When the disposal of a subsidiary results in a loss of control, the consideration of the sale and any investment retained in that subsidiary are required to be measured at their fair values. The previous HKAS 27 does not have specific requirements for such fair value measurements.

The above requirements of HKAS 27 (Revised) has been applied prospectively from 1 April 2010 and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	2011 **HK$'000**	2010 HK$'000
Increase in profit for the year attributable to owners of the Company	**17**	–
Increase in earnings per share (HK cents)	**0.01**	–

In current year, the Group has early adopted the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" in advance of their effective date (accounting periods beginning on or after 1 January 2012). Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. As a result, the Group's investment properties that are measured using the fair value model have been presumed through sale for the purpose of measuring deferred tax, therefore no deferred tax has been provided in respect of changes in fair value of the Group's investment properties during the year. The amendments to HKAS 12 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	At 31 March **2011** **HK$'000**	At 31 March 2010 HK$'000	At 1 April 2009 HK$'000
Decrease in income tax expense	**(2,079)**	–	–
Increase in profit for the year attributable to owners of the Company	**2,079**	–	–
Increase in earnings per share (HK cents)	**0.29**	–	–
Decrease in deferred tax liabilities	**(6,996)**	–	–
Increase in property revaluation reserve	**4,917**	–	–

2. Adoption of New and Revised Hong Kong Financial Reporting Standards (Continued)

Other than the amendments to HKAS 12, the Group has not applied the other new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention as modified by the investment properties which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving a higher degree of critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

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

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Notes to the Financial Statements

For the year ended 31 March 2011

3. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- Income and expenses for each statement of comprehensive income 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 exchange rates on the transaction dates); and

- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit or loss as part of the gain or loss on disposal.

3. Significant Accounting Policies (Continued)

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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 recognised in the profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land and 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 residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(d) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property, plant and equipment.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

(e) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Notes to the Financial Statements

For the year ended 31 March 2011

3. Significant Accounting Policies (Continued)

(g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(h) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3. Significant Accounting Policies (Continued)

(l) Trade and other payables

Trade and other payables are stated initially at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from provision 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 the statement of financial position. Upon expiry of prepaid packages of beauty and wellness services, the corresponding deferred revenue is fully recognised in profit or loss.

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

Interest income is recognised on a time proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(o) 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 end of the reporting period.

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

(ii) Bonus plans

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

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

(iii) Pension obligations

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,000 per employee and vest fully with employees when contributed into the MPF Scheme.

Notes to the Financial Statements

For the year ended 31 March 2011

3. Significant Accounting Policies (Continued)

(o) Employee benefits (Continued)

(iii) Pension obligations (Continued)

The employees of the Group's subsidiaries established in the People Republic of China (the "PRC") are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iv) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Significant Accounting Policies (Continued)

(r) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

Notes to the Financial Statements

For the year ended 31 March 2011

3. Significant Accounting Policies (Continued)

(s) Related parties (Continued)

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(t) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets except investment properties, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(u) Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(v) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Critical Judgements and Key Estimates

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Income taxes

The Group is subject to income taxes in Hong Kong and the PRC. Significant estimates are 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. 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 period in which such determination is made.

Impairment of property, plant and equipment

The Group conducts impairment reviews of property, plant and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. 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.

Fair values of investment properties

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

Share-based payment

The fair value of the share options granted to the directors and employees determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Company's share-based compensation reserve. In assessing the fair value of the share options, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the fair value of the share options. The Black-Scholes Model requires the input of subjective assumptions, including the expected dividend yield and expected life of options. Any changes in these assumptions can significantly affect the estimate of the fair value of the share options.

Notes to the Financial Statements

For the year ended 31 March 2011

5. Financial Risk Management

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

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currency of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 March 2011 in relation to each class of recognised financial assets is the carrying amounts of those assets as included in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its deposits with banks and trade receivables. The Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The credit risk on deposits with banks is limited as the counterparties are reputable banks with sound credit ratings.

Sales to customers are made in cash or via credit cards. The credit risk on trade receivables is limited as the counterparties are reputable banks with sound credit ratings.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

As at 31 March 2011 and 2010 the maturity of the Group's and Company's financial liabilities is less than one year.

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its deposits with banks. The deposits with bank bear interests at variable rates varied with the then prevailing market condition.

At 31 March 2011, if interest rates at that date had been 75 basis points higher/lower with all other variables held constant, consolidated profit after tax for the year would have been HK$2,477,000 higher/lower (2010: consolidated loss after tax for the year would have been HK$1,890,000 lower/higher), arising mainly as the result of the higher/lower interest income from bank deposits.

(e) Categories of financial instruments at 31 March

	2011 **HK$'000**	2010 HK$'000
Financial assets:		
Loan and receivables (including cash and cash equivalents)	**516,802**	447,469
Financial liabilities:		
Financial liabilities at amortised costs	**53,233**	48,629

5. Financial Risk Management (Continued)

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. Segment Information

The Group has two reportable segments as follows:

Beauty and wellness services	–	Provision of beauty and wellness services
Skincare and wellness products	–	Sales of skincare and wellness products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. Segment profits or losses do not include other income, interest income, finance costs, unallocated costs, which comprise corporate administrative expenses, gain on disposals of subsidiaries, and income tax expense or credit. Segment assets do not include investment properties, current tax assets and deferred tax assets. Segment liabilities do not include current tax liabilities.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Notes to the Financial Statements

For the year ended 31 March 2011

6. Segment Information (Continued)

Information about reportable segment profit or loss, assets and liabilities:

	Beauty and wellness services HK$'000	**Skincare and wellness products** HK$'000	**Total** HK$'000
Year ended 31 March 2011			
Revenue from external customers	**550,940**	**35,587**	**586,527**
Inter-segment revenue	**–**	**14,980**	**14,980**
Segment profit	**35,204**	**18,612**	**53,816**
Other segment information:			
Additions to non-current assets	**19,505**	**1,349**	**20,854**
Depreciation	**37,878**	**628**	**38,506**
As at 31 March 2011			
Segment assets	**573,669**	**3,139**	**576,808**
Segment liabilities	**464,670**	**2,258**	**466,928**
Year ended 31 March 2010			
Revenue from external customers	402,016	28,734	430,750
Inter-segment revenue	–	11,756	11,756
Segment (loss)/profit	(81,817)	11,838	(69,979)
Other segment information:			
Additions to non-current assets	153,080	–	153,080
Depreciation	41,591	698	42,289
As at 31 March 2010			
Segment assets	652,856	2,164	655,020
Segment liabilities	422,018	3,176	425,194

6. Segment Information (Continued)

Reconciliations of reportable segment profit or loss, assets and liabilities:

	2011 **HK$'000**	2010 HK$'000
Profit or loss:		
Total profit/(loss) of reportable segments	**53,816**	(69,979)
Other income	**16,661**	5,928
Interest income	**328**	267
Finance costs	**–**	(2,387)
Gain on disposals of subsidiaries	**–**	36,592
Corporate administrative expenses	**(18,995)**	(24,813)
Income tax (expense)/credit	**(7,835)**	13,147
Consolidated profit/(loss) for the year	**43,975**	(41,245)
Assets:		
Total assets of reportable segments	**576,808**	655,020
Investment properties	**175,400**	–
Deferred tax assets	**18,744**	26,190
Current tax assets	**3,085**	5,566
Total assets	**774,037**	686,776
Liabilities:		
Total liabilities of reportable segments	**466,928**	425,194
Current tax liabilities	**2,826**	2,383
Total liabilities	**469,754**	427,577
Other information:		
Total additions to non-current assets of reportable segments and consolidated additions	**20,854**	153,080
Total depreciation of reportable segments	**38,506**	42,289
Depreciation of property held for corporate uses	**–**	575
Consolidated depreciation	**38,506**	42,864

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For the year ended 31 March 2011

6. Segment Information (Continued)

Geographical information:

	Revenue		Non-current assets	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000 (Restated)
Hong Kong	**553,597**	398,139	**223,042**	196,164
Mainland China	**32,930**	32,611	**2,946**	4,895
Consolidated total	**586,527**	430,750	**225,988**	201,059

In presenting the geographical information, revenue is based on the locations of the customers and non-current assets do not include deferred tax assets and trade and other receivables, deposits and prepayments.

7. Turnover

	2011	2010
	HK$'000	HK$'000
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**550,940**	402,016
Sales of skincare and wellness products	**35,587**	28,734
	586,527	430,750

8. Other Income

	2011	2010
	HK$'000	HK$'000
Gross rental income	**–**	375
Commission income	**3,583**	1,350
Magazine subscription income	**102**	1,944
Gain on revaluation of investment properties	**12,600**	–
Other income	**376**	2,259
	16,661	5,928

9. Employee Benefit Expenses (Including Directors' Emoluments)

	2011 HK$'000	2010 HK$'000
Wages and salaries	**282,509**	242,269
Retirement benefit scheme contributions	**11,717**	10,507
Other staff welfare	**2,807**	–
Share-based payments (Note 26)	**949**	1,332
	297,982	254,108

Directors' emoluments

The emoluments of each director were as follows:

Name of Director	Note	**Fees HK$'000**	**Salaries HK$'000**	**Share-based payments HK$'000**	**Retirement benefit scheme contribution HK$'000**	**Total HK$'000**
Tsang Yue, Joyce	(i)	**–**	**5,165**	**–**	**12**	**5,177**
Lee Soo Ghee	(ii)	**–**	**1,533**	**146**	**6**	**1,685**
Yip Kai Wing		**–**	**633**	**54**	**12**	**699**
Kwong Chi Ching	(ii)	**–**	**415**	**22**	**6**	**443**
Tung Kwok Lui	(iii)	**–**	**839**	**–**	**12**	**851**
Wong Shu Pui		**–**	**844**	**–**	**12**	**856**
Leung Man Kit	(iv)	**–**	**670**	**–**	**12**	**682**
Liu Mei Ling, Rhoda		**240**	**–**	**–**	**–**	**240**
Wong Man Hin, Raymond		**180**	**–**	**–**	**–**	**180**
Hong Po Kui, Martin		**180**	**–**	**–**	**–**	**180**
Total for 2011		**600**	**10,099**	**222**	**72**	**10,993**

Notes to the Financial Statements

For the year ended 31 March 2011

9. Employee Benefit Expenses (Including Directors' Emoluments) (Continued)

Directors' emoluments (Continued)

The emoluments of each director were as follows (Continued):

Name of Director	Note	Fees HK$'000	Salaries HK$'000	Share-based payments HK$'000	Retirement benefit scheme contribution HK$'000	Total HK$'000
Lee Soo Ghee		–	6,964	146	12	7,122
Yip Kai Wing		–	527	54	12	593
Kwong Chi Ching		–	816	22	12	850
Tung Kwok Lui		–	452	–	7	459
Wong Shu Pui		–	449	–	7	456
Liu Mei Ling, Rhoda		80	–	–	–	80
Wong Man Hin, Raymond		60	–	–	–	60
Hong Po Kui, Martin		60	–	–	–	60
Chu Shu Ching	(v)	–	106	11	5	122
Yeung Ching Yu	(v)	–	126	11	5	142
Yuen Siu Ping	(vi)	–	491	162	6	659
Mok Hin Yuk	(vii)	–	57	–	2	59
Cheng Kai Tai, Allen	(viii)	120	–	–	6	126
Yip Ki Chi, Luke	(ix)	120	–	–	6	126
Soo Say Keong, Sean	(x)	120	–	–	6	126
Total for 2010		560	9,988	406	86	11,040

Notes:

(i) Re-appointed on 16 April 2010

(ii) Resigned on 15 September 2010

(iii) Resigned on 20 May 2011

(iv) Appointed on 15 September 2010

(v) Appointed on 10 September 2009 and resigned on 15 March 2010

(vi) Removed on 15 December 2009

(vii) Resigned on 10 September 2009

(viii) Resigned on 8 December 2009

(ix) Resigned on 10 December 2009

(x) Resigned on 9 December 2009

9. Employee Benefit Expenses (Including Directors' Emoluments) (Continued)

Five highest paid individuals

The five highest paid individuals in the Group during the year included 2 (2010: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2010: 2) individuals are set out below:

	2011 **HK$'000**	2010 HK$'000
Basic salaries and allowances	**2,860**	1,493
Retirement benefit scheme contribution	**36**	24
Share-based payments	**76**	86
	2,972	1,603

The emoluments fell within the following band:

	Number of individuals	
	2011	2010
Nil – HK$1,000,000	**2**	2
HK$1,000,001 – HK$1,500,000	**1**	–
	3	2

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. Finance Costs

	2011 **HK$'000**	2010 HK$'000
Interest on loan from ultimate controlling party	**–**	2,387

Notes to the Financial Statements

For the year ended 31 March 2011

11. Income Tax Expense/(Credit)

	2011 HK$'000	2010 HK$'000
Current tax – Hong Kong Profits Tax		
– Provision for the year	3,630	5,260
– Over-provision in prior years	(3,340)	(1,109)
	290	4,151
Deferred tax (Note 20)	7,545	(17,298)
	7,835	(13,147)

Hong Kong Profits Tax is provided at 16.5% (2010: 16.5%) based on the assessable profits for the year.

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduces various changes which include the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law is effective from 1 January 2008.

No provision for PRC enterprise income tax has been made for the year ended 31 March 2011 (2010: Nil) as the PRC subsidiaries of the Company either did not generate any assessable profits for the year or have available tax losses brought forward from prior years to offset against any assessable profits generated during the year.

The reconciliation between the income tax expense/(credit) and the product of profit/(loss) before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2011 HK$'000	2010 HK$'000
Profit/(loss) before tax	51,810	(54,392)
Tax at the domestic tax rate of 16.5%	8,549	(8,975)
Tax effect of income that is not taxable	(2,170)	(7,687)
Tax effect of expenses that is not deductible	660	3,210
Over-provision in prior years	(3,340)	(1,109)
Tax effect of utilisation of tax losses not previously recognised	(569)	(2)
Tax effect of tax losses and other temporary differences previously recognised and reversed	4,242	–
Tax effect of tax losses not recognised	627	1,652
Effect of different tax rates of subsidiaries	(164)	(236)
Income tax expense/(credit)	7,835	(13,147)

12. Profit/(Loss) for the Year

Profit/(loss) for the year is stated after charging the following:

	2011 HK$'000	2010 HK$'000 (Restated)
Auditors' remuneration	**1,335**	1,912
Depreciation	**38,506**	42,864
Direct operating expenses of investment properties that did not generate rental income	**53**	–
Operating lease charges for land and buildings	**102,057**	108,777
Loss on disposals of property, plant and equipment	**–**	1,472

13. Loss Attributable to Owners of the Company

Loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of HK$1,006,000 (2010: HK$1,418,000).

14. Dividends

	2011 HK$'000	2010 HK$'000
Proposed final dividend of HK2.88 cents per ordinary share	**20,837**	–
Interim dividend of HK1.4 cents per ordinary share	**10,129**	–
Special dividend of HK2.8 cents per ordinary share	**–**	20,259
	30,966	20,259

15. Earnings/(Loss) Per Share

(a) Basic earnings/(loss) per share

The calculation of basic earnings (2010: loss) per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$43,918,000 (2010: loss attributable to owners of the Company of approximately HK$41,245,000) and the weighted average number of ordinary shares of 723,520,000 (2010: 723,520,000) in issue during the year.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings (2010: loss) per share for the years ended 31 March 2011 and 2010 did not assume the exercise of the Company's outstanding share options as the exercise price of these outstanding options were higher than the average market price of the shares of the Company. Accordingly, the share options had no potential dilutive effect for the years ended 31 March 2011 and 2010.

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16. Property, Plant and Equipment

	Group						
	Land and 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
Cost							
At 1 April 2009, as previously reported	40,257	146,986	86,593	7,083	11,288	9,244	301,451
Adoption of amendment to HKAS 17	121,228	–	–	–	–	–	121,228
At 1 April 2009, as restated	161,485	146,986	86,593	7,083	11,288	9,244	422,679
Additions	137,865	13,266	1,927	22	–	–	153,080
Disposals/write off	–	(36,024)	(29,671)	(5,142)	(1,060)	(1,891)	(73,788)
Disposals of subsidiaries	(161,485)	–	–	–	–	–	(161,485)
Exchange differences	–	73	32	2	–	6	113
At 31 March 2010 and 1 April 2010, as restated	137,865	124,301	58,881	1,965	10,228	7,359	340,599
Additions	–	14,769	3,987	18	558	1,522	20,854
Disposals/write off	–	(22,488)	(11,730)	–	–	(316)	(34,534)
Fair value change on revaluation upon reclassification of assets to investment properties	24,935	–	–	–	–	–	24,935
Reclassified to investment properties	(162,800)	–	–	–	–	–	(162,800)
Exchange differences	–	330	156	9	–	26	521
At 31 March 2011	–	116,912	51,294	1,992	10,786	8,591	189,575
Depreciation							
At 1 April 2009, as previously reported	2,766	86,012	66,998	5,935	5,309	6,534	173,554
Adoption of amendment to HKAS 17	5,344	–	–	–	–	–	5,344
At 1 April 2009, as restated	8,110	86,012	66,998	5,935	5,309	6,534	178,898
Charge for the year	4,335	25,517	8,634	418	2,502	1,458	42,864
Disposals/write off	–	(35,210)	(29,669)	(5,142)	(342)	(1,891)	(72,254)
Disposals of subsidiaries	(10,013)	–	–	–	–	–	(10,013)
Exchange differences	–	29	13	1	–	2	45
At 31 March 2010 and 1 April 2010, as restated	2,432	76,348	45,976	1,212	7,469	6,103	139,540
Charge for the year	2,431	25,732	6,512	273	2,327	1,231	38,506
Eliminated on revaluation upon reclassification of assets to investment properties	(4,863)	–	–	–	–	–	(4,863)
Disposals/write off	–	(22,488)	(11,730)	–	–	(316)	(34,534)
Exchange differences	–	204	106	7	–	21	338
At 31 March 2011	–	79,796	40,864	1,492	9,796	7,039	138,987
Carrying amount							
At 31 March 2011	–	37,116	10,430	500	990	1,552	50,588
At 31 March 2010 (Restated)	135,433	47,953	12,905	753	2,759	1,256	201,059

16. Property, Plant and Equipment (Continued)

During the year ended 31 March 2011, the Group has reclassified its land and buildings to investment properties and measured at the fair value at the date of transfer. The fair value of the land and buildings at the date of transfer to investment properties is HK$162,800,000. The gain on revaluation of HK$29,798,000 is credited to the property revaluation reserve directly.

The land and buildings were revalued at 31 December 2010, on the open market value basis by reference to market evidence of recent transactions for similar properties by Roma Appraisals Limited, an independent firm of chartered surveyors.

17. Investment Properties

	Group HK$'000
At 1 April 2009 and 31 March 2010	**–**
Reclassified from property, plant and equipment	**162,800**
Fair value gain	**12,600**
At 31 March 2011	**175,400**

Investment properties were revalued at 31 March 2011 on the open market value basis by reference to market evidence of recent transactions for similar properties by Roma Appraisals Limited, an independent firm of chartered surveyors.

The Group's investment properties at their carrying amounts are situated in Hong Kong under medium-term leases.

18. Investment in a Subsidiary

	The Company	
	2011 HK$'000	2010 HK$'000
Unlisted investments, at cost	**101,076**	101,076

The amount due from a subsidiary is unsecured, interest free and repayable on demand.

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18. Investment in a Subsidiary (Continued)

Particulars of the principal subsidiaries as at 31 March 2011 are as follows:

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of operation
BE Universal Limited	Hong Kong	1,000 ordinary shares of HK$1 each	–	100%	Sales of skincare and wellness products, Hong Kong
Beauty Expert (B.V.I.) Limited	British Virgin Islands	1,000 ordinary shares of US$1 each	–	100%	Provision of franchise and trademark services in relation to the provision of beautification and gymnastic services, Hong Kong
Beauty Expert (International) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of management services, Hong Kong
Beauty Expert (Logistics) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Sales of skincare and wellness products and leasing of fixed assets, Hong Kong
Kin Yik Biomedical Technology Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Provision of beauty and wellness services and sales of skincare and wellness products, Hong Kong
Koladen Enterprises Inc.	British Virgin Islands	100 ordinary shares of US$1 each	100%	–	Investment holding, Hong Kong
Modern Beauty Salon (HK) Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Provision of beauty and wellness services and sales of skincare and wellness products, Hong Kong
Rise Luck Development Limited	Hong Kong	1,000 ordinary shares of HK$1 each	–	100%	Property holding, Hong Kong
Modern (Human Resource) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of management services, Hong Kong
Zi Advertising (HK) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of advertising services, Hong Kong
Modern Beauty Holdings Limited	British Virgin Islands	1,000 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
Advanced Natural (Hong Kong) Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	55%	Sales of skincare and wellness products, Hong Kong

18. Investment in a Subsidiary (Continued)

Particulars of the principal subsidiaries as at 31 March 2011 are as follows (Continued):

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities and place of operation
Modern Beauty Management Company Limited ("MBMC")	Hong Kong	1,000 ordinary shares of HK$1 each	–	100%	Investment holding, Hong Kong
Modern Beauty Salon (International) Limited	British Virgin Islands	450,000 preferred shares of US$0.1 each and 50,000 ordinary shares of US$0.1 each	–	100%	Provision of sub-franchising services in relation to the provision of beautification and gymnastic services, Hong Kong
Modern Beauty Saloon Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100%	Provision of sub-franchising services in relation to the provision of beautification and gymnastic services, Hong Kong
Moral Management Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Investment holding, Hong Kong
Nice Sound Investments Limited	British Virgin Islands	1 ordinary share of US$1	–	100%	Investment holding, Hong Kong
Shanghai Be Beauty Salon and Fitness Company Limited 上海貝倚美容健身有限公司 ("SHBS"), (Note)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of beauty and wellness services, PRC
Guangzhou Be Beauty Salon and Fitness Company Limited 廣州貝倚美容健身有限公司("GZBS"), (Note)	PRC	Registered capital of HK$10,000,000	–	100%	Provision of beauty and wellness services, PRC
Beijing Modern Beauty Salon Company Limited 北京芭伊妮美容有限公司 ("BJMBS"), (Note)	PRC	Registered capital of US$1,250,000	–	100%	Provision of beauty and wellness services, PRC

Note: SHBS, GZBS, and BJMBS are wholly foreign owned enterprises established in the PRC. These subsidiaries 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 2011.

The above list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Notes to the Financial Statements

For the year ended 31 March 2011

19. Trade and Other Receivables, Deposits and Prepayments

	Group 2011 HK$'000	2010 HK$'000
Non-current assets		
Rental and other deposits	**18,494**	24,037
Current assets		
Trade receivables	**45,822**	62,276
Trade deposits retained by banks and credit card companies (Note)	**86,408**	86,249
Rental and other deposits, prepayments and other receivables	**35,677**	22,847
Amounts due from related companies (Note 32(b))	**77**	–
	167,984	171,372
	186,478	195,409

Note: Trade deposits represent trade receivables that were retained by the banks/credit card companies in reserve accounts to secure the Group's performance of services to customers who paid for the services by the banks' credit cards, in accordance with the merchant agreements entered into between the Group and the banks/credit card companies.

The Group's turnover comprises mainly cash and credit card sales. The credit terms with banks/credit card companies are within 150 days (2010: 150 days) from the date of billings.

An ageing analysis of trade receivables, based on the billing date, is as follows:

	Group 2011 HK$'000	2010 HK$'000
0 – 30 days	**21,747**	26,196
31 – 60 days	**8,593**	13,556
61 – 90 days	**10,621**	14,859
91 – 150 days	**4,021**	5,360
Over 150 days	**840**	2,305
	45,822	62,276

19. Trade and Other Receivables, Deposits and Prepayments (Continued)

As of 31 March 2011, trade receivables of approximately HK$2,517,000 are past due but not impaired (2010: HK$10,717,000). This relates to banks/credit card companies for whom there are no recently history of default. Most of these balances had been subsequently settled as of the date of this annual report. The ageing analysis of these trade receivables, based on due date, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
0 – 30 days	**791**	7,670
31 – 60 days	**188**	645
61 – 90 days	**402**	115
91 – 150 days	**308**	52
Over 150 days	**828**	2,235
	2,517	10,717

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

	Group	
	2011	2010
	HK$'000	HK$'000
Hong Kong dollars	**45,740**	62,198
Renminbi	**82**	78
Total	**45,822**	62,276

Notes to the Financial Statements

For the year ended 31 March 2011

20. Deferred Tax

The following are the major deferred tax assets and liabilities recognised by the Group.

	Group			
	Accelerated tax depreciation HK$'000	Decelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April 2009	(1,055)	7,659	2,042	8,646
Credit to loss for the year (Note 11)	–	2,923	14,375	17,298
Disposals of subsidiaries	1,055	(833)	–	222
Exchange differences	–	2	22	24
At 31 March 2010 and 1 April 2010	–	9,751	16,439	26,190
Charge to profit for the year (Note 11)	–	(698)	(6,847)	(7,545)
Exchange differences	–	–	99	99
At 31 March 2011	–	9,053	9,691	18,744

At the end of the reporting period the Group has unused tax losses of HK$89,561,000 (2010: HK$126,985,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$56,017,000 (2010: HK$87,997,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$33,544,000 (2010: HK$38,988,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$15,903,000 (2010: HK$18,341,000) that will expire in five years from year the losses were incurred. Other tax losses may be carried forward indefinitely.

21. Inventories

As at 31 March 2011 and 31 March 2010, inventories represented finished goods.

22. Pledged Bank Deposits

The Group's pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group. The deposits are in United States dollars and at floating interest rate of 0.09% p.a. and therefore are subject to foreign currency risk and cash flow interest rate risk.

23. Cash and Cash Equivalents

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

	Group	
	2011	2010
	HK$'000	HK$'000
Cash at bank and cash in hand	**290,468**	214,046
Short-term bank deposits	**32,696**	30,859
	323,164	244,905

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

	Group	
	2011	2010
	HK$'000	HK$'000
Hong Kong dollars	**297,820**	219,104
United States dollars	**99**	103
Renminbi (Note)	**25,245**	25,698
	323,164	244,905

Note: Conversion of Renminbi into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The carrying amounts of the Company's cash and cash equivalents represented cash at bank and cash in hand and are denominated in Hong Kong dollars.

Notes to the Financial Statements

For the year ended 31 March 2011

24. Share Capital

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.1 each		
At 1 April 2009, 31 March 2010 and 31 March 2011	**10,000,000,000**	**1,000,000**
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2009, 31 March 2010 and 31 March 2011	**723,520,000**	**72,352**

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.

The only externally imposed capital requirement is that for the Group to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares. The Group receives a report from the shares registrars monthly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

25. Reserves

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

(b) Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Contributed surplus HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2009	146,875	3,248	47,076	116,435	313,634
Share-based payments	–	1,332	–	–	1,332
Lapse of share options	–	(1,316)	–	1,316	–
Loss for the year	–	–	–	(1,418)	(1,418)
At 31 March 2010 and 1 April 2010	146,875	3,264	47,076	116,333	313,548
Share-based payments	–	949	–	–	949
Lapse of share options	–	(936)	–	936	–
Loss for the year	–	–	–	(1,006)	(1,006)
2010 special dividends paid	–	–	–	(20,259)	(20,259)
2011 interim dividends paid	–	–	–	(10,129)	(10,129)
At 31 March 2011	146,875	3,277	47,076	85,875	283,103

25. Reserves (Continued)

(c) Nature and purpose of reserves

(i) Share premium account

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share-based compensation reserve

The share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to directors and employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(p) to the financial statements.

(iii) Merger reserve

Pursuant to the Group's reorganisation effected on 24 January 2006 (the "Reorganisation"), the Company acquired the share capital of Koladen Enterprises Inc. ("KEI") in consideration of allotment and issue of 539,999,925 shares to SCHC 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 of the Group.

(iv) Contributed Surplus

The contributed surplus of the Company arose as a result of the Reorganisation and represented the excess of the fair value of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(b)(iii) to the financial statements.

(vi) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with the fair value changes arising from the Group's property, plant and equipment reclassified to investment properties.

Notes to the Financial Statements

For the year ended 31 March 2011

26. Share-Based Payments

Equity-settled share option scheme

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

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

Particulars of the Share Option Scheme is set out in pages 43 to 44 of this annual report.

Details of the share options outstanding during the year are as follows:

	Number of share options				
	Outstanding at beginning of year	Reclassification	Lapsed during the year	Outstanding at end of year	Exercisable at end of year
Year ended 31 March 2011					
Directors	**2,050,000**	**(200,000)**	**(1,350,000)**	**500,000**	**125,000**
Senior management	**450,000**	**200,000**	**–**	**650,000**	**162,500**
Other employees	**6,280,000**	**–**	**(600,000)**	**5,680,000**	**1,420,000**
	8,780,000	**–**	**(1,950,000)**	**6,830,000**	**1,707,500**
Year ended 31 March 2010					
Directors	3,550,000	200,000	(1,700,000)	2,050,000	–
Senior management	450,000	–	–	450,000	–
Other employees	6,970,000	(200,000)	(490,000)	6,280,000	–
Others	1,350,000	–	(1,350,000)	–	–
	12,320,000	–	(3,540,000)	8,780,000	–

The fair value of the share 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, expected volatility 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 dates 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.

27. Trade and Other Payables, Deposits Received and Accrued Expenses

	Group 2011 HK$'000	2010 HK$'000
Trade payables	**471**	409
Other payables, deposits received and accrued expenses	**52,633**	45,632
Amounts due to related companies (Note 32(b))	**129**	2,588
	53,233	48,629

An ageing analysis of trade payables based on invoice date at the end of the reporting period is as follows:

	Group 2011 HK$'000	2010 HK$'000
Within 90 days	**471**	409

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

	Group 2011 HK$'000	2010 HK$'000
Hong Kong dollars	**397**	391
Renminbi	**74**	18
	471	409

28. Deferred Revenue

An ageing analysis of the deferred revenue is as follows:

	Group 2011 HK$'000	2010 HK$'000
Within 1 year	**312,438**	270,234
More than 1 year but within 2 years	**52,155**	78,570
More than 2 years but within 3 years	**49,102**	27,761
	413,695	376,565

Notes to the Financial Statements

For the year ended 31 March 2011

28. Deferred Revenue (Continued)

Movement of deferred revenue:

	Group 2011 HK$'000	2010 HK$'000
At beginning of year	**376,565**	254,414
Gross receipts for sales of prepaid beauty packages	**587,834**	524,084
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(550,940)**	(402,016)
Exchange differences	**236**	83
At end of year	**413,695**	376,565

29. Notes to Consolidated Statement of Cash Flows

(a) Disposals of subsidiaries

For the year ended 31 March 2010, the Group disposed of the entire interests in its three wholly-owned subsidiaries, which are dormant, to independent third parties at an aggregated consideration of HK$5.

As referred to the Company's circular dated 14 October 2009, MBMC, a wholly-owned subsidiary of the Company and All Link International Limited, a company which is ultimately beneficially owned by Ms. Tsang, entered into a disposal agreement on 23 September 2009 (the "Disposal Agreement").

Pursuant to the Disposal Agreement, the Group has conditionally agreed to sell the entire interests in its wholly-owned subsidiaries, namely, East Union Industries Limited, Joy East Limited, Well Faith International Enterprise Limited, and Wise World Limited (the "Sale Companies"); and all the amounts due by the Sale Companies to MBMC at the date of completion of the disposals, at an aggregated consideration of HK$190 million. The disposal was completed on 13 November 2009.

29. Notes to Consolidated Statement of Cash Flows (Continued)

(a) Disposals of subsidiaries (Continued)

Net assets of the three dormant companies and the Sale Companies at the dates of disposals were as follows:

	HK$'000 (Restated)
Property, plant and equipment	151,472
Deferred tax assets	833
Trade and other receivables, deposits and prepayments	2,233
Current tax assets	1,106
Cash and cash equivalents	1,420
Trade and other payables, deposits received and accrued expenses	(302)
Deferred tax liabilities	(1,055)
Due to MBMC	(143,724)
Current tax liabilities	(2,560)
Net assets disposed of	9,423
Due to MBMC disposed and liabilities of the Sale Companies undertaken by the Group	143,985
Gain on disposals of subsidiaries	36,592
Total consideration	190,000
Satisfied by:	
Cash	72,000
Set off of loan from ultimate controlling party (Note 29(b(ii)))	118,000
	190,000
Net cash inflow arising on disposal:	
Cash consideration received	72,000
Cash and cash equivalents disposed of	(1,420)
	70,580

(b) Major non-cash transactions

(i) Consideration for the additions to property, plant and equipment during the year was settled by offsetting the deposits of HK$1,000,000 paid to the sellers in prior year.

(ii) On 16 June 2009, the Group obtained a loan from the ultimate controlling party, Ms. Tsang, amounted to HK$118 million, which is unsecured, bears interest at the best lending rate quoted by the Standard Chartered Bank (Hong Kong) Limited and repayable on demand. During the same year, the loan was fully settled by offsetting the consideration for the disposals of the Sale Companies in accordance with the Disposal Agreement.

Notes to the Financial Statements

For the year ended 31 March 2011

30. Commitments

(a) Commitments under operating leases

At 31 March 2011, the total future minimum lease payments under non-cancelable operating leases are payable as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Not later than one year	**80,706**	101,023
Later than one year and not later than five years	**74,503**	105,102
Over five years	**–**	503
	155,209	206,628

Operating lease payments represent rentals payable by the Group for certain of its beauty service centres, retail shops, offices and warehouses operated by the subsidiaries. Leases are negotiated for an average term of 3 years (2010: 3 years) and rentals are fixed over the lease terms and are based on the higher of a minimum guaranteed rental or a sales level based rental. The minimum guaranteed rental has been used to compute the above commitments.

(b) Capital commitments

Capital commitments at the end of the reporting period are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Contracted but not yet provided for:		
Acquisition of plant and equipment	**14,995**	1,537

31. 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 insignificant or unspecified amounts. The directors are of the opinion that such complaints and claims are remote and have no material financial impact to the Group.

32. Related Party Balances and Transactions

(a) Related party transactions

In addition to those related party transactions disclosed elsewhere in the financial statements, the Group had the following material transactions with its related parties during the year:

		2011 HK$'000	2010 HK$'000
(i)	Rental expenses paid to related companies:		
	All Link International Limited	160	960
	Chain Tech International Limited	336	336
	East Union Industries Limited	910	396
	Joy East Limited	201	87
	Luck Elegant Industrial Limited	1,051	1,680
	Golden National Limited	9,600	9,600
	Well Faith International Enterprise Limited	4,450	2,530
	Wise World Limited	847	368
		17,555	15,957
(ii)	License fees paid to a related company:		
	Grateful Heart Charitable Foundation Limited	–	480
(iii)	Sales of products to related companies:		
	Euro King Limited	807	605
	Most Glory Limited	–	58
		807	663
(iv)	Purchase of products from a related company:		
	Euro King Limited	491	–
(v)	Donation paid to a related company:		
	Grateful Heart Charitable Foundation Limited	113	591

Note: The pricing of the related party transactions are mutually agreed by the Group and the related companies. Ms. Tsang is the ultimate controlling party of the related companies.

Notes to the Financial Statements

For the year ended 31 March 2011

32. Related Party Balances and Transactions (Continued)

(b) Balances with related parties

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

Amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	Group		
	Balance at 31 March 2011 HK$'000	Balance at 1 April 2010 HK$'000	Maximum amount outstanding during the year HK$'000
Euro King Limited	**18**	–	337
Grateful Heart Charitable Foundation Limited	**59**	–	59
	77	–	

(c) Guarantee

As at 31 March 2011, Ms. Tsang has guaranteed to indemnify certain companies within the Group of HK$10,000,000 against any loss resulting from any litigation and claims occurred prior to the listing of the Company's shares on the Main Board of the Stock Exchange.

(d) Key management compensation:

	Group	
	2011 HK$'000	2010 HK$'000
Fees	**600**	560
Salaries and allowances	**10,099**	9,988
Retirement benefit scheme contribution	**72**	86
Share-based payments	**222**	406
	10,993	11,040

33. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 29 June 2011.

Properties Held by the Group

Location	Lease term	Use
ISA TOWER No.5 Minden Avenue, Kowloon, Hong Kong Comprising the Ground Floor, Mezzanine Floor, First Floor, Second Floor, Third Floor, Fourth Floor, Fifth Floor, Sixth Floor, Seventh Floor, Eighth Floor, Ninth Floor, Tenth Floor, Eleventh Floor and Caretaker's Flat on the Roof	Lease period between 10–50 years	Under renovation

Five Years Financial Summary

Consolidated results

	Year ended 31 March				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**586,527**	430,750	661,795	786,002	614,064
Profit/(loss) before tax	**51,810**	(54,392)	22,215	273,833	210,468
Income tax (expense)/credit	**(7,835)**	13,147	(4,990)	(47,060)	(33,050)
Profit/(loss) for the year	**43,975**	(41,245)	17,225	226,773	177,418

Consolidated assets and liabilities

	As at 31 March				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)		
Total non-current assets	**263,226**	251,286	275,060	259,731	124,149
Total current assets	**510,811**	435,490	334,687	453,634	661,148
Total assets	**774,037**	686,776	609,747	713,365	785,297
Total non-current liabilities	**–**	–	(1,055)	(209)	(79)
Total current liabilities	**(469,754)**	(427,577)	(309,780)	(338,477)	(475,731)
Total liabilities	**(469,754)**	(427,577)	(310,835)	(338,686)	(475,810)
Net assets	**41,057**	7,913	298,912	374,679	309,487

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

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