
MODERN BEAUTY
11/12 年度報告
Annual Report
MODERN BEAUTY SALON HOLDINGS LIMITED
現代美容控股有限公司
MODERN BEAUTY
STOCK CODE 股份代號: 919


Beauty is...
Trust yourself from heart!

Contents

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 2012, 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 6 outlets respectively as at 31 March 2012.

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 up to 10 February 2012)
Mr. Wong Man Hin, Raymond
(Chairperson since 10 February 2012)
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

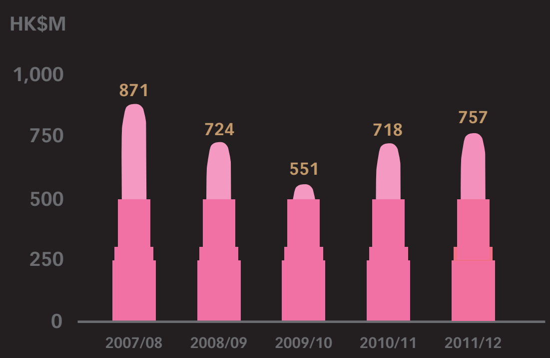
Email address:
ir@modernbeautysalon.com

Website

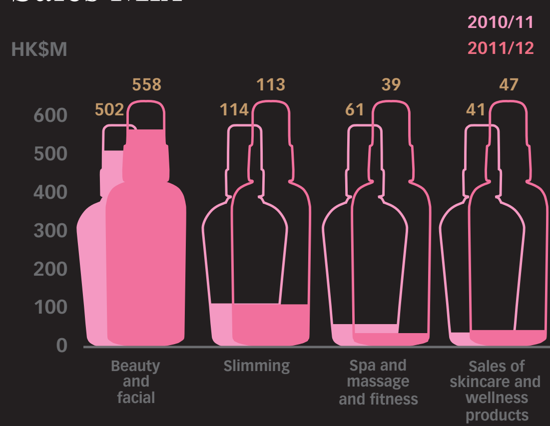
www.modernbeautysalon.com

Financial Highlights

Turnover

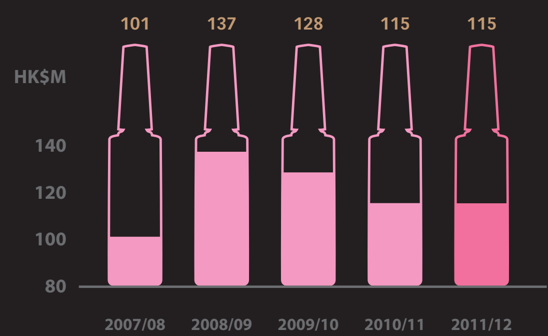


Sales Mix



Employee Benefits Expenses

Occupancy Costs



- For FY2012, the Group achieved growth in both segments of services rendered and products sold with turnover reaching approximately HK$756.6 million (FY2011: approximately HK$718.2 million), representing an increase of approximately 5.3%.
- Profit for the year attributable to owners of the Company decreased from approximately HK$89.2 million in FY2011 to approximately HK$82.2 million in FY2012.
- Profit margin decreased from 12.4% in FY2011 to 10.9% in FY2012.
- Basic earnings per share for the year under review was HK11.19 cents as compared to the basic earnings per share of HK12.33 cents for the same period last year.
- The Board recommended the payment of final dividend of HK4.25 cents per share for the year under review.

Beauty from Top to Toe

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.

2011/12 Milestones and Key Events

April 2011

A winner of the "Trusted Brands Gold Award" for five consecutive years

July 2011

An award of "Woman Entrepreneur of the Year" to Ms. Tsang Yue, Joyce from APEA

August 2011

- A winner of the "Best of the Best for Executives" from Capital Magazine for seven consecutive years
- A winner of "JESSICACODE Beauty Awards 2011"

September 2011

A winner of the "Gold Award of Hong Kong Brand" for five consecutive years

October 2011

- An award of the "Metro Box magazine" - "Prime Awards for Brand Excellence "

- An award of "The 4th Excellence in Achievement of World Chinese Youth Entrepreneurs" to Ms. Tsang Yue, Joyce jointly awarded by Yazhou Zhoukan and World Federation of Chinese Entrepreneurs Organization.
- "The 1st Funny Family Competition" organized by Zi, our magazine.

December 2011

- A winner of the "Capital CEO Supreme Brand Award"

- A winner of the "Metro Box magazine" – "Prime Awards for Outstanding Leaders"

- A winner of the "Hong Kong Outstanding Enterprises" awarded by Economic Digest

January 2012

- Co-organizer of "The Winter's Coolest Shopping Lovers Competition (最CHOK冬日購物王)" with Facebook

- On 5 July 2011, a wholly-owned subsidiary of the Group and Ms. Tsang Yue, Joyce, an Executive Director and the controlling shareholder, entered into the sale and purchase agreement, pursuant to which the Group would acquire from Ms. Tsang Yue, Joyce the entire issued share capital of Zegna Management Limited which was principally engaged in a wide range of beauty care services including facial treatment, body slimming programs and spa in Singapore and Malaysia through its wholly-owned subsidiary under the brandname, "Giman", at a consideration of HK$250 million which would be satisfied by the issue of convertible notes to the vendor. On 10 January 2012, the acquisition was completed and the Company issued the convertible notes.

February 2012

Opening of the10th service center of Giman Beauty & Wellness under the Group in Kovan District, Singapore

March 2012

- "The Excellent Award in HK Beauty Industry" awarded by International CICA Association of Esthetics
- Appointment of Ms. Tsang Yue, Joyce our Chairman and Chief Executive Officer, as Honor President of International CICA Association of Esthetics

+5%
Turnover


Modern Beauty Salon
BALCAN GROUP
B.M.glycolic
B.M.glycolic
B.M.glycolic

Chairperson's Statement

I am pleased to present the audited financial statements of Modern Beauty Salon Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 March 2012 on behalf of the Board of Directors (the "Board").

Business Review

During the year under review, thanks to the growing demand on the Group's beauty services in Mainland China and Hong Kong driven by the increasing economic growth in China, and a considerable achievement in the optimization of our internal management system, the Group saw a remarkable growth in turnover and earnings. With abundant experience, our commitment to offer the highest quality services and the enhancement of marketing efforts, we recorded very satisfactory operating income in despite of ferocious competition in beauty industry, with a turnover of HK$756.6 million, representing an increase of 5.3% as compared to HK$718.2 million for the previous year. We also recorded robust earnings as we persisted in adhering to a prudent financial management and effective cost control. The profit during the year decreased by 8.0% to HK$82.1 million from HK$89.3 million. The decrease was mainly resulted from the one-off administrative cost incurred from the acquisition of the Southeast Asia business, which should have limited effect on the long-term operating costs.

The Group keeps a close eye on the market trends in the beauty industry so as to capitalize any desirable opportunities for expansion and implement our strategic plan for increasing our market shares and strengthening our leading position in the industry. In January 2012, the Group completed the acquisition of the beauty care service business of Zegna Management Limited and its subsidiaries at a consideration of HK$250 million. Our service centers in Singapore and Malaysia increased to nine and three respectively through this acquisition.

After the completion of this merger and acquisition, our next step is to develop the Group to become one of the leading regional beauty groups with business network covering the most affluent cities in Asia-Pacific regions, including Hong Kong, Guangzhou, Shanghai and Beijing in China, Kuala Lumpur in Malaysia and Singapore, to provide a wide range of branded products and beauty and wellness services. Furthermore, riding on our regional network in Asia-Pacific region after successful completion of the acquisition, we shall formulate strategies for our growth and promote beauty products/services in a more efficient and effective way in order to strengthen our market position in these regions.

Although China is a huge market with rapid growth, there are concerns on the intensifying inflation pressure and relatively ferocious competition amongst peer players. With our years of operating experience, our devotion to offer "from good to excellent" service and our prudent financial plan, we not only won customers' support, but also successfully stabilized our operating costs, maintaining a stable performance of the business in Mainland China during the year under review and recoding profits on an ongoing basis from a number of service centers in Mainland China.

In addition to offering beauty and wellness services, the Group also launched its self-owned brands of high-quality skincare products, such as "p.e.n", "be" and "FERRECARE" and obtained distribution rights for several high-quality brands of skincare products to widen our products mix for catering the needs of different social classes and age groups. It has long been my commitment to offer environmental friendly products made in either Europe or Australia with strict quality assurance to ensure the quality of our products. With our reliable quality assurance, our effective marketing efforts and expansion of retail networks, our results from sales of products remains satisfactory and volume of sales increased by 14.4% to HK$46.8 million from HK$40.9 million.

Awards

With the Group's years of experience in the beauty industry, I truly understand the importance of knowing what our customers want and have been inspiring our people's dedication to provide the best service and develop and launch high-quality skincare products to our customers. During the year under review, the Group was proud to be awarded a number of awards, including the "Hong Kong Outstanding Enterprises" from Economic Digest, the "Capital CEO Supreme Brand Award" and the "Best of the Best for Executives" for seven consecutive years from Capital Magazine, proving that we are highly respected and recognized by the industry. I am also proud of being awarded "The 4th Excellence in Achievement of World Chinese Youth Entrepreneurs" jointly from Yazhou Zhoukan and World Federation of Chinese Entrepreneurs Organization, "Woman Entrepreneur of the Year" from APEA and "Prime Awards for Outstanding Leaders" from "Metro Box magazine" during the year.

Outlook

As the Group's slimming and beauty businesses in Hong Kong is maturing, we shall continue to maintain the pace of growth in a proactive and prudent manner and always seek opportunities for our growth in Greater China and Asia. Following our increased presence in Singapore and Malaysia, we shall, if under favorable condition, expand our business, enhance our market position and enlarge our market shares through merger and acquisition of other beauty service brands so as to gradually build up ourselves as a leading beauty group in Asia-Pacific region.

In addition to slimming and beauty services, we shall continue to expand our retail networks for various branded products and raise our brand awareness. Moreover, we are dedicated to diversify our skincare and wellness products through the acquisition of more brands and distributorship and shall consider a further separate listing when the business becomes mature and sizable.

Appreciation

Despite various challenges faced by the Group during the year, we were able to seize the opportunities to ride out the storm of difficulties and achieved a remarkable results. On behalf of the Board, I would like to express my sincere gratitude to the management and our staff members for their hard working and dedication. My grateful appreciation also extends to our business partners, customers and shareholders for their long-standing support to our business growth. I sincerely look forward to work with all of you to develop Modern Beauty as a leader in the beauty service industry in Asia.

Growth


Beauty and Facial · Slimming ·
Spa and Massage · Fitness
+5%
in Revenue from Provision of Beauty and Wellness
Services and Expiry of Prepaid Beauty Packages

Sales of skincare and wellness products increased from HK$40.9 million in FY 2011 to approximately HK$46.8 million in the year under review, representing an increase of approximately 14.4%.

Management Discussion & Analysis

Overview

For the year ended 31 March 2012 ("FY2012" or the "year under review"), the turnover amounted to approximately HK$756.6 million, representing an increase of about 5.3% as compared to approximately HK$718.2 million for the year ended 31 March 2011 ("FY2011" or "same period last year"). Growth was seen in both beauty and wellness services and sales of related products. The receipts from sales of prepaid beauty packages during the year under review was HK$790.0 million, with an increase of 9.3% over last year. With the inflation and business expansion of the Group, the employees benefit expenses increased by 6.8% to HK$366.8 million. Occupancy costs remained at approximately HK$115.0 million, similar to that of the same period last year.

During the year under review, operating profit decreased to HK$100.7 million from HK$107.0 million in 2011. Furthermore, the profit for the year attributable to owners of the Company was HK$82.2 million, representing a decrease of 7.9% as compared to HK$89.2 million for the corresponding period of last year. The decrease was mainly resulted from the one-off administrative cost incurred from the acquisition of the Southeast Asia business and the foreign exchange loss for the year. Basic earnings per share of the Group during the year under review was HK11.19 cents as compared with HK12.33 cents in the same period last year.

Business Review — Hong Kong

The flourishing economy and rising domestic demand in the Mainland China during the year under review led a strong sentiment for the retail sales in Hong Kong. Coupled with the growing number of professional females in Hong Kong, beauty and wellness have gradually become the daily necessities with an ever-increasing demand. In response to the change of social trend, there were also changes to the Group's business model of beauty and wellness services. With the increasing consumption power of customers in recent years and fast pace of life, the Group captured the opportunity to provide high value-added and more efficient and effective beauty and wellness services. During the year under review, revenue from services and receipts for prepaid beauty packages were HK$578.2 million and HK$611.5 million respectively (2011: HK$519.4 million and HK$557.7 million), representing increase of 11.3% and 9.6% respectively. The significant revenue increase has proven the right strategy adopted by the Group in business adjustment.

Moreover, as customers are increasingly interested in high-quality beauty and wellness services, the Group has all along made effort to enhance the brand name of the Group by improving the professional standards of our team, coupled with advanced and newly equipped beauty facilities. In order to increase our market shares, the Group will also take into account the market demand to provide customers with more anti-aging and aesthetic services.

During the year under review, the Group maintained 29 beauty and spa service centres with a total gross floor area of approximately 258,000 square feet. The Group has changed the use of certain area for yoga or spa to higher yielding beauty services, in order to improve the effectiveness of operating area.

In terms of the sales of skincare and wellness products, as of 31 March 2012, the Group has a total of 16 stores under the names of "p.e.n", "be Beauty Shop" and "FERRECARE Concept Store", scattering across Hong Kong, Kowloon and New Territories. Those stores primarily sell high-quality skincare and wellness products under self-owned brands of "p.e.n", "be" and "FERRECARE and renowned foreign brands in which we have distribution rights. We now offer more than 80 varieties of products to customers. Our customers are highly satisfied with our products as the Group has imposed strict requirements on the products to be sold and in which we have distribution rights, coupled with the professional advice provided by our staff who has received comprehensive training on product knowledge. Revenue from sales of skincare and wellness products increased from HK$33.4 million in 2011 to HK$38.2 million in 2012.

Business Review — Mainland China

The Group operates a total of ten beauty and wellness services centres in the Mainland China through three wholly-owned subsidiaries established in Beijing, Shanghai and Guangzhou in China. During the year under review, our Mainland China operations have successfully turned around from loss into profit due to active and stringent implementation of quality control measures and decreased rental expenses as well as growing turnover.

The Mainland China market is huge and full of opportunities though there is fierce competition. With the continued economic growth of China, the Group's target customer base, including domestic professionals with high consumption power and the more affluent middle class, is further expanded. These customers are keen on these beauty services providers who can provide quality services and has secured a proven brand name.

The cost control imposed by the Group did not exert significant pressure on our business operation in the Mainland China. On the contrary, by virtue of the quality services provided by the Group's professional team, the brand name of the Group has secured a presence in the Mainland China, thereby the Group's turnover in the Mainland China during the year under review increased to HK$36.1 million (2011: HK$32.9 million) and receipts from sales of prepaid beauty packages increased by 10.7% to HK$34.9 million as compared to HK$31.5 million for the same period last year. The overall business recorded a profit of HK$0.7 million during the year under review from a loss of HK$2.1 million for the same period last year.

Business Review — Southeast Asia

During the year under review, the Group has successfully expanded its operating territory to Singapore and Malaysia through acquisitions. Currently, the Group has a total of ten and three beauty and wellness services centres in Singapore and Malaysia respectively. During the year under review, the turnover from operations in Singapore and Malaysia was HK$104.1 million, bringing the Group a profit of HK$11.7 million. Revenue from services rendered and receipts from sales of prepaid beauty packages amounted to HK$96.7 million and HK$146.5 million respectively. As the Group's operations in Southeast Asia is at its early stage, we will continue to provide quality services to build up local customer's confidence in the Group and a sound brand name. At the same time, the Group will also expand its sales network of skincare and wellness products through the above acquired beauty service centres.

Operational Highlights

Project in Tsim Sha Tsui

Regarding the en-block building property at No. 5 Minden Avenue, Tsim Sha Tsui acquired by the Group in 2009, the future plan is now being reconsidered by the management due to the recent uncertain factors caused by the European market. The management does not rule out the possibility of disposal of the property if being offered a reasonable price.

Financial Review

Turnover

During the year ended 31 March 2012, turnover increased by HK$38.4 million or 5.3% to HK$756.6 million. The contribution and the driving force to the growth of the turnover were mainly attributable to the beauty and facial care and slimming services.

Set out below is a breakdown on the turnover of the Group by service lines and product sales during FY2012 (with comparative figures for FY2011):

	For the year ended 31 March				
	2012		2011		
Sales mix	**HK$'000**	**Percentage of turnover**	HK$'000	Percentage of turnover	Change
Beauty and facial	**557,791**	**73.7%**	501,860	69.9%	+11.1%
Slimming	**113,282**	**15.0%**	114,491	15.9%	–1.1%
Spa and massage	**35,312**	**4.7%**	53,868	7.5%	–34.4%
Fitness	**3,400**	**0.4%**	7,074	1.0%	–51.9%
Beauty and wellness services	**709,785**	**93.8%**	677,293	94.3%	+4.8%
Sales of skincare and wellness products	**46,820**	**6.2%**	40,937	5.7%	+14.4%
Total	**756,605**	**100.0%**	718,230	100.0%	+5.3%

During the year under review, thanks to the substantial improvement of the economic environment, the increased customer spending, the provision of high value-added services by the Group and our correct positioning in the beauty industry in Hong Kong, the turnover from beauty and facial service line increased by 11.1% to HK$557.8 million (2011: HK$501.9 million). As the Group allocated more resources to the promotion of beauty and facial services than those to the slimming services this year as compared to last year, the Group's turnover from slimming services slightly decreased 1.1% from HK$114.5 million in 2011 to HK$113.3 million in 2012.

During the year under review, the Group allocated more resources on various channels, including placing advertisements on magazines, internet and television, so as to expand the customer coverage. In order to enhance the operation efficiency, the Group developed an Electronic Signature Verification System during the year under review, allowing the customers to have booking on demand for beauty and facial treatment at any time. Thanks to the trust and support from the customers towards our provision of beauty and wellness services over the years, together with effective marketing strategies and diversified services, the receipts from sales of prepaid beauty packages amounted to HK$790.0 million during the year under review, representing an increase of 9.3% as compared to HK$722.9 million for the same period last year.

Set out below is an analysis on the deferred revenue:

	For the year ended 31 March							
	2012				2011			
Movement of deferred revenue	**Hong Kong HK$'000**	**Mainland China HK$'000**	**South East Asia (Singapore and Malaysia) HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	South East Asia (Singapore and Malaysia) HK$'000	Total HK$'000
Beginning of the year	**393,662**	**20,033**	**153,932**	**567,627**	355,376	21,189	138,426	514,991
Exchange differences	**—**	**297**	**450**	**747**	—	236	6,744	6,980
Receipts from sales of prepaid beauty packages	**611,467**	**32,041**	**146,526**	**790,034**	557,710	30,124	135,115	722,949
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(578,212)**	**(34,874)**	**(96,699)**	**(709,785)**	(519,424)	(31,516)	(126,353)	(677,293)
End of the year	**426,917**	**17,497**	**204,209**	**648,623**	393,662	20,033	153,932	567,627

Employee benefit expenses

Employee benefit expenses (including staff's salaries and bonuses as well as directors' remunerations), representing the largest component of the Group's operating expenses. During the year under review, employee benefit expenses increased by about 6.8% from HK$343.2 million in 2011 to approximately HK$366.8 million, which was attributable to the continuous growth of our operations and our dedication to improve the remuneration of the staff in order to attract and retain the talents.

The Group's remuneration policies are in line with the prevailing market practices and are determined based on individual performance and experience. The Group has constantly reviewing staff remuneration to ensure it is competitive within the industry. For the purpose of motivating and rewarding our staff, discretionary bonus and share options are granted to eligible employees based on individual 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 bonus in recognition of their contribution. Employee benefit expenses accounted for 48.5% of our turnover, as compared to 47.8% in 2011.

Occupancy costs

The Group has a total of 39 service centres in the Mainland China and Hong Kong as of 31 March 2012, with a total weighted average gross floor area of 308,000 square feet, a decrease of 2.2% as compared to 315,000 square feet in 2011.

in Sales of Skincare and Wellness Products

+14%

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

During the year under review, the Group completed the acquisition of the entire equity interest in Zegna Management Limited together with its subsidiaries, which had a total of 10 and 3 beauty service centres in Singapore and Malaysia respectively as of 31 March 2012, with an aggregate total gross floor area of approximately 24,000 square feet and 8,900 square feet respectively. The occupancy costs in Singapore and Malaysia amounted to approximately HK$13.5 million (2011: HK$12.9 million) in 2012, accounting for approximately 13.0% (2011: 9.8%) of our turnover from the businesses in Singapore and Malaysia.

Depreciation

As some of services centres have been in operation for years, certain assets acquired when those services centres opened for business, such as leasehold improvements, beauty machines and fixtures of services centres, were completely depreciated, resulting in the decrease of depreciation cost for the year under review to HK$31.2 million, or 29.0%, as compared to that for the same period of last year.

Other operating expenses

Other operating expenses mainly include bank charges, advertising costs, utilities and building management fees. Bank charges rose by 17.0% to HK$36.9 million, which was 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 HK$11.1 million, as compared to HK$10.9 million for the same period last year. During the year ended 31 March 2012, the percentage of advertising costs to turnover remained at 1.5%, similar to that of the same period last year, demonstrating the continuous enhancement of our marketing effectiveness and the sound reputation of the Group in the beauty industry.

Profit and Profit Margin

Profit for the year decreased to approximately HK$82.1 million from approximately HK$89.3 million in 2011. Furthermore, profit for the year attributable to owners of the Company also decreased to approximately HK$82.2 million from approximately HK$89.2 million in 2011. Profit margin decreased from 12.4% in 2011 to 10.9% for the year under review. Both decreases were mainly resulted from the Group's efforts on the expansion of our service network in Southeast Asia, which resulted in additional costs incurred for the year, among others, the one-off costs for developing new local business network. Developing new business network will be beneficial to the long-term growth of the Group. At the same time, the Group will continue to control its costs by different means so as to maintain its profit margin. Basic earnings per share for the year was HK11.19 cents as compared to the earnings per share of HK12.33 cents for the same period last year.

Dividend per share

The Board recommended payment of a final dividend of HK4.25 cents per share subject to approval of the shareholders of the Company at the forthcoming Annual General Meeting. Together with the interim dividend of HK3.38 cents paid during the year, the total dividend for the year ended 31 March 2012 will be HK7.63 cents per share. This indicates an approximately 75% dividend payout ratio of the current year profit.

Liquidity, financial resources and capital structure

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. During the year under review, we maintained a strong financial position with abundant cash and bank balances of approximately HK$484.4 million (2011: HK$449.5 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. During the year under review, except for the fund required for operation, the majority of the Group's cash was held in fixed and savings deposits as in line with the Group's prudent treasury policy.

Capital Expenditure

The total capital expenditure of the Group during the year under review was HK$47.1 million, as compared to HK$23.4 million for the same period last year. The amount was mainly used for the additions of leasehold improvements, motor vehicles and equipment and machinery in connection with the expansion of its service network in Hong Kong and Southeast Asia.

Contingent Liabilities and Capital Commitment

The Board considered that there was no material contingent liabilities as at 31 March 2012. The Group had capital commitment of HK$12.4 million as at 31 March 2012 (31 March 2011: HK$15.0 million), mainly for the acquisition of plant and equipment.

Charges on Assets

As at 31 March 2012, the Group had pledged bank deposits of HK$7.1 million (31 March 2011: HK$7.2 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign Exchange Risk Exposures

The Group's sales and purchases were mainly denominated in Hong Kong Dollars. However, the continuous appreciation of Renminbi has exerted relative pressures on the Group's operating costs in Mainland China. The management will closely monitor the risk exposures faced by the Group, and will take the necessary actions to properly hedge such exposures.

Treasury Policies
The Group adopts a prudent approach in its treasury policy. The Group's surplus funds are held under fixed and savings deposits in reputable banks to earn interest income at an annualized yield of approximately 0.2%. During the period under review, the Group did not have any other security or capital investments, derivative investments, or hedging for foreign currencies.

Human Resources and Training
The Group had a workforce of 1,879 staff as at 31 March 2012 (31 March 2011: 1,779 staff), including 1,306 front-line service centre staff in Hong Kong, 121 in Mainland China and 230 in Southeast Asian regions (Singapore and Malaysia). Back office staff totaled 163 in Hong Kong, 24 in Mainland China and 35 in Southeast Asian regions. Total employee benefits expenses including directors' emoluments for the year under review amounted to HK$366.8 million, representing a 6.8% increase as compared to HK$343.2 million in 2011.

The Group reviews its remuneration policies on a regular basis with reference to the legal framework, market conditions and performance of the Group and individual employees. The Remuneration Committee also reviews the remuneration policies and packages of executive directors and the senior management. In addition, share options and discretionary bonus are granted to eligible employees based on the Group's results and individual performance of the employees. On 20 January 2006, the Group adopted the share option scheme. As at 31 March 2012, a total of 6,680,000 share options have been granted to certain directors, senior management and employees of the Group. Pursuant to the remuneration policies of the Group, employees' remunerations comply with the legal requirements of all jurisdictions in which we operate, and are in line with the market rates.

For the purpose of enhancing core skills of our staff members, the Group regularly organizes training programs. Some of the seminars are conducted by the senior management of the Group, which facilitate mutual communications between the senior management and the general staff. At the same time, our staff is encouraged to participate in training programs and talks which directly or indirectly relate to the Group's business, so as to enhance the service skills of our employees.

Corporate Social Responsibility
Not only we devote ourselves for reasonable return for shareholders, but also contribute to the social and economic development of the society and communities in which we operate through managing our environmental impact in the course of operation. As our efforts to make the working environment healthier and greener, the Group has specific policies stipulating how to minimize the use of air conditioning and reduce our water consumption at service centres.

We took part in the sponsorship of the 4th Hong Kong Yogathon as the co-sponsor during the year under review. Participants who made extra donations would receive a complimentary beauty treatment from "Modern Beauty Salon".

Outlook

Under the continuous economic uncertainties in Europe and the United States, coupled with China announcing a slowdown for economic growth, the retail and consumption sentiment may be adversely affected, which may in turn affect the performance of beauty and wellness services industry and its product sales. However, the Group has been actively controlling the operating costs as well as focusing on the maintenance of a healthy cash status. Therefore, despite the changes and challenges in the business environment, we are still cautiously optimistic about the performance of the Group in the coming year.

We understand that professional and caring services as well as reliable and quality products are essential to maintaining a steady business growth. In view of this, the Group will continue to provide our front-line staff with professional training and impose strict quality control on the products to be sold and distributed, for safeguarding the health and safety of our customers as well as consolidating and promoting the brand name of the Group.

Hong Kong Market

As the beauty and wellness services industry in Hong Kong is becoming mature, more demands emerge for high-quality services. In face of the changes in market needs for services, the Group will not only maintain a quality service, but also respond quickly, adjust the business model and invest appropriate resources, so as to provide diversified, efficient and effective services, further consolidate business shares and expand market shares. What's more, we target to strengthen customers' confidence and loyalty in us. Along with the rumor of radioactive contamination in Japanese products, customers in Hong Kong are becoming more interested in the skincare and wellness products originated from Europe. Since the Group has always promoting quality skincare and wellness products from Europe, which are well received by customers, we are confident in the prospect of our Group's product sales. We have also planned to seize the opportunity of expanding our market shares through the expansion of the retail network and the increase of distribution rights of our brands and products.

Mainland China Market

As the Chinese government has dedicated to boosting the domestic demand market and the income per capita has kept its upward trend, the demand for beauty and wellness services are on the rise accordingly. The Group will continue to develop its markets in Mainland China, particularly promoting the business development in second and third tier cities, in order to capture the proper opportunities and expand our business network by upholding its franchise business strategy and acquiring beauty business.

Singapore and Malaysia markets

The beauty business in Singapore and Malaysia acquired during the year has been operating smoothly. We will continue to enhance its business quality and effectiveness, so as to become one of the major income sources of the Group.

Investor Relations and Financial Calendar

Upholding the principles of timeliness, fairness and openness, we continue to proactively expand our active and effective investor relations program during the year. We are committed to maintaining stable and smooth two-way communications with the shareholders, investors, sell-side analysts, financial media and potential investors, so as to ensure that the investors fully understand the current and future developments of the Group and make informed investment decisions, and allow the Group's shares price to fully reflect the long-term value of the Company.

Investor Relations Strategy and Policy

We understand the importance of transparency and accountability to the Company and strongly believe that the best way to improve business transparency and accountability to shareholders is a sincere and active communication with investors, media and the public on an on-going basis so as to enhance the investment sector and the community's perception and understanding on the Group's business affairs, strategies and plans and financial positions. We also highly value investors' opinions and feedback as these will help us to formulate our development strategy for the enhancement of shareholder value.

Effective Two-way Communication

We have in place a dedicated investor relations team for handling investor relations and setting up a bridge between the Group and the investors. During the year under review, as arranged by the investor relations team, we held such investor relations events as the annual general meeting, press conference for results announcement, road shows, investor conferences and company visits. Through these activities, the investment community is able to have a clearer insight on our business development and shareholders are able to have latest information on the Group.

Valuable opinions from investors on our business development will also be collected by the investor relations team through various channels to enable the Group to better understand the market's concern and formulate more effective future investor relations programs and business strategy and practices.

As our business continues to growth, we expect more access to the capital markets, and it will be more and more important to maintain timely and smooth communication with the investors. We shall continue to improve and enhance our investor relations system, and endeavor to maintain a high standard of investor relations.

Financial Calendar

Last day to register for 2012 Annual General Meeting	*24 August 2012*
Closure of Register of Members for 2012 Annual General Meeting	*25 August 2012 to 28 August 2012, both dates inclusive*
2012 Annual General Meeting	*28 August 2012*
Last day to register for entitlement to 2012 final dividend	*31 August 2012*
Closure of Register of Members for entitlement to 2012 final dividend	*3 September 2012 to 5 September 2012, both dates inclusive*
Record date for entitlement to 2012 final dividend	*5 September 2012*
Payment of 2012 final dividend	*24 September 2012*

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 2012:	873,996,190 shares
Board lot:	4,000 shares
Nominal value:	HK$0.10 per share
Market Capitalization as at 31 March 2012:	HK$970 million

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 51, is Executive Director and the Chairperson of the Board, the Chief Executive Officer of the Group, and the Chairpersons of each of the Remuneration Committee (until 10 February 2012) 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 holds a Doctorate in Business Administration (Honoris Causa) from International American University. She is a Fellow of the Hong Kong Institute of Directors. She is the Honorary President of International CICA Association of Esthetics — CIDESCO Section China and the Honorary Fellow of The Professional Valuation Centre of Hong Kong. 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 School Manager of Pok Oi Hospital Chan Kai Memorial College since 2009. She is the Sub-Committee Chairman, Other Services of The Chinese Manufacturer's Association of Hong Kong. She is the Honorary President of Carnation Women's Association. She was awarded "Woman Entrepreneur of the Year" in 2011 from APEA. She was also awarded the "Award of listed company leader 2012", "Prime Awards for Outstanding Leaders" from "Metro Box magazine", "The 4th Excellence in Achievement of World Chinese Youth Entrepreneurs" jointly from Yazhou Zhoukan and World Federation of Chinese Entrepreneurs Organization, "《Capital CEO》 2012 Distinguished CEO of the year" and "《Capital Entrepreneur》 2012 Entrepreneur of the year". Ms. Tsang is the spouse of Mr. Lee Soo Ghee, a former Executive Director of the Company (resigned on 15 September 2010) and currently Chief Administrative Officer of the Company (appointed on 10 February 2012).

Mr. Yip Kai Wing
Aged 38, 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 45, 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 35, 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 50, 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 46, 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 Nan Nan Resources Enterprise Limited (formerly known as 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 62, 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 34 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 and an independent non-executive director of Fulbond Holdings Limited (stock code: 1041) from December 2006 to 29 June 2011.

Senior Management

Mr. Lee Soo Ghee
Aged 37, is the Chief Administrative Officer of the Company (appointed on 10 February 2012). Mr. Lee is a former Executive Director of the Company (resigned on 15 September 2010). Mr. Lee is responsible for overseeing brand management, overseas business/supply chain, marketing and sales, products research and development, property management, procurement and administration of the Group. He is also responsible for providing comprehensive, technical, programmatic guidance in the areas of facilities management, logistics management and creative design and engineering as well as overall planning and strategic development of the Group's operation. Mr. Lee holds a diploma in Electronics, Computer & Communication Engineering from Singapore Polytechnic, having extraordinary talent in the sphere of design. Mr. Lee also holds a Degree of Doctor from Business Administration by International American University. He is the spouse of Ms. Tsang Yue, Joyce, Executive Director and Chairperson of the Board.

Ms. Yeung See Man
Aged 38, 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 40, 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. The Code on Corporate Governance Practices (the "Code") has been revised and renamed Corporate Governance Code as set out in Appendix 14 of the Listing Rules with effect from 1 April 2012. During the year ended 31 March 2012, the Company has complied with the Code, except for the deviation from Code provision A.2.1 as discussed in the section headed "Chairperson 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.

Chairperson and Chief Executive Officer

During the year under review, Ms. Tsang Yue, Joyce ("Ms. Tsang") has been both the Chairperson and Chief Executive Officer of the Company. Code provision A.2.1 of the Code stipulates that the role of chairperson 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.

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 had held 13 board meetings. A summary of Board and Committee meetings during the year under review is set out in the following table:

Board and Committee Meetings for the year ended 31 March 2012

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Independent Board Committee	Board Committee
Executive Director						
Ms. Tsang Yue, Joyce [1 & 2]	4/13	N/A	2/2	3/3	N/A	N/A
Mr. Yip Kai Wing	12/13	N/A	N/A	N/A	N/A	1/1
Mr. Wong Shu Pui	13/13	N/A	N/A	N/A	N/A	1/1
Mr. Leung Man Kit	13/13	N/A	N/A	N/A	N/A	1/1
Independent Non-Executive Director						
Ms. Liu Mei Ling, Rhoda [3]	13/13	3/3	2/2	3/3	2/2	N/A
Mr. Wong Man Hin, Raymond [4]	13/13	3/3	2/2	3/3	2/2	N/A
Mr. Hong Po Kui, Martin	10/13	1/3	1/2	2/3	2/2	N/A

Notes:

1. Chairperson of the Board and Chairperson of the Nomination Committee of the Company.

2. Chairperson of the Remuneration Committee of the Company up to 10 February 2012.

3. Chairperson of the Audit Committee of the Company.

4. Chairperson of the Remuneration Committee of the Company since 10 February 2012.

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. The Company confirms that it has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules and the Company still considers each Independent Non-executive Director to be independent.

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. Each of the three Independent Non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin 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.

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 Corporate Governance Code 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 three times 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. risk management systems.

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2012 in conjunction with the Company's auditor prior to their approval by the Board.

Nomination Committee

The Nomination Committee is chaired by Ms. Tsang Yue, Joyce, 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 two times 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 new director for approval by the Board;

c. the nomination of Mr. Lee Soo Ghee as the Chief Administrative Officer of the Company; and

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

Remuneration Committee

Up to 10 February 2012, the Remuneration Committee was chaired by Ms. Tsang Yue, Joyce, our Chairperson of the Board and the other members were the three Independent Non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin. Since 10 February 2012, the Remuneration Committee was chaired by Mr. Wong Man Hin, Raymond, an Independent Non-executive Director and the other members were Ms. Tsang Yue, Joyce, our Chairperson of the Board and the other two Independent Non-executive Directors, Ms. Liu Mei Ling, Rhoda, 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.

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

a. reviews on remuneration policy, organizational 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.

The Remuneration Committee determines, with delegated responsibilities, the remuneration package of individual Executive Directors and senior management.

Corporate Governance Function

The corporate governance function and policy are determined by the Board. During the year under review, the work performed by the Board on corporate governance function is summarized as follows:

(a) develop and review policies and practices on corporate governance;

(b) review and monitor the training and continuous professional development of directors and senior management;

(c) review and monitor the policies and practices on compliance with legal and regulatory requirements;

(d) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Auditors' Remuneration

During the year ended 31 March 2012, the remuneration paid/payable to the Company's external auditor, RSM Nelson Wheeler and its network firms, for providing the audit and other non-audit services as follow:

Fee paid/payable	**HK$'000**
Audit services	1,991
Review of interim financial information	250
Non-audit services	1,259

Directors' Responsibilities for accounts and Auditor's Responsibility

The Directors' responsibility for preparing the accounts is set out on page 55, and the auditor's reporting responsibility is set out on page 55.

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 2012, 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.

Procedure to convene Extraordinary General Meeting

Pursuant to Article 79 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meeting may also be convened on the written requisition of any one member of the Company which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

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 and any enquiries to be put to the Board and any proposals to be put forward at shareholders' meeting are welcomed and can be addressed to the Investors Relation Department by mail or by email to the Group at ir@modernbeautysalon.com.

There has been no significant change in the Company's constitutional documents during the year under review.

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 FY2012.

Principal Activities

The principal activities of the Company is investment holding and the principal activities of the Group continued throughout FY2012 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 2012 are set out in notes 19 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, the PRC, Singapore and Malaysia. The Group's turnover and results by reportable segment are set out in note 7 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 FY2012 are set out in the consolidated statement of comprehensive income on page 57.

An interim dividend of HK3.38 cents per share, amounting to HK$24,454,976, was paid to shareholders during the year under review (FY2011: HK1.4 cents per share amounting to HK$10,129,280).

The Directors are pleased to recommend the payment of a final dividend of HK4.25 cents per share amounting to HK$37,144,838 during the year under review (FY2011: HK2.88 cents per share, amounting to HK$20,837,376), subject to the final approval at the Annual General Meeting to be held on 28 August 2012.

The Annual General Meeting of the Company is scheduled on Tuesday, 28 August 2012. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Saturday, 25 August 2012 to Tuesday, 28 August 2012, 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, 24 August 2012.

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 5 September 2012. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 3 September 2012 to Wednesday, 5 September 2012, 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 Friday, 31 August 2012. The payment of final dividend will be made on Monday, 24 September 2012.

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 96 and note 26 to the financial statements respectively.

Distributable Reserves

As at 31 March 2012, the Company's reserve available for distribution amounted to approximately HK$465 million. Movements in reserves of the Company during the year and the distributable reserves of the Company as at 31 March 2012 are set out in note 26 to the financial statements.

Financial Summary

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 108. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

During the year, the Group spent approximately HK$47.1 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 17 to the financial statements.

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 25 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$16,000 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)
Mr. Leung Man Kit
Mr. Yip Kai Wing
Mr. Wong Shu Pui

Independent Non-executive Directors

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

Directors (Continued)

Pursuant to Article 130 of the Company's Articles of Association, Ms. Tsang Yue, Joyce, Mr. Yip Kai Wing and Mr. Wong Shu Pui will retire by rotation and, being eligible, offer themselves 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

Each of the three Independent Non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin 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.

Directors' Interests in Contracts

Save as disclosed, in the paragraph headed "Connected Transactions" and in note 35 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 ("JFH") and its subsidiaries) had been 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 was 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 had been deemed to be 100% interested in JF (Singapore) Group at the material time. Given that JF (Singapore) Group had been principally engaged in the provision of beauty services in Singapore and Malaysia before the date of completion of the Acquisition (as defined below), which is in a different geographical location from that of the Group, the Directors considered that the business activities of JF (Singapore) Group did not compete with those of the Group at the material time.

Nevertheless, each of JFH and Ms. Tsang Yue, Joyce had entered into a deed of undertaking ("the Deed of Undertaking") in favour of the Group to the effect that each of them would not, and would procure that none of its subsidiaries (other than the Group) and the companies controlled by her (other than the Group), respectively, would engage or otherwise be involved in any business which would compete or would be 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).

Competing Interest (Continued)

Pursuant to the Deed of Undertaking, JFH irrevocably granted to the Company an option to purchase the whole of the business of JFH at a fair market value to be determined by an independent valuer nominated by the Company at any time after the Company's listing on the Stock Exchange. At the time of entering into the Deed of Undertaking, the business of JFH in providing beauty and healthcare services in Singapore and Malaysia was mostly operated by two of its wholly-owned subsidiaries, one being a company incorporated in Singapore and the other being a company incorporated in Malaysia (together, the "Subject Operating Companies") respectively. As a result of a corporate reorganisation undertaken by Ms. Tsang Yue, Joyce, JFH and its subsidiaries, the issued share capital of the Subject Operating Companies (hence the then business of JFH) were transferred to Zegna Management Limited and the remaining JF (Singapore) group only comprises of defunct companies pending dissolution.

The following transactions have been approved by independent shareholders at an Extraordinary General Meeting held on 27 October 2011.

On 5 July 2011, Be Universal Limited, a wholly-owned subsidiary of the Company as the purchaser and Ms. Tsang Yue, Joyce, an Executive Director and the controlling shareholder of the Company, as the vendor entered into a Sale and Purchase Agreement (amended by a Supplemental Sale and Purchase Agreement dated 30 September 2011 entered into between the same parties), pursuant to which Be Universal Limited had conditionally agreed to acquire and Ms. Tsang Yue, Joyce, as the sole beneficial owner, had conditionally agreed to sell or procure the sale of the entire issued share capital of Zegna Management Limited at the consideration of HK$250 million, which would be satisfied by a convertible note with a 2% coupon per annum to be issued by the Company ("Acquisition").

Zegna Management Limited and its subsidiaries (collectively, the "Zegna Group") is engaged in a wide range of beauty care services including facial treatment, body slimming programs as well as spa, and fitness courses in Singapore and Malaysia. Upon completion of the Acquisition, each member of the Zegna Group will become a wholly-owned subsidiary of the Company and the financial results and position of the Zegna Group will be consolidated into the consolidated financial statements of the Company.

In light of the above, the Directors are of the view that the Acquisition is in line with the spirit of the Deed of Undertaking.

The Acquisition was completed on 10 January 2012.

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 2012, the interests and short positions of the Directors and 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	Capacity in which interests are held	Interests in Shares	Equity Derivatives (Share Options)	Equity Derivatives (Convertible Note)	Total Interests	Approximate Percentage of Issued Share Capital of the Company[1]
Mr. Lee Soo Ghee	Beneficial Owner	650,000	—	—	650,000	0.07%
	Interest of spouse[3]	646,760,190	—	87,619,048	734,379,238	84.03%
Ms. Tsang Yue, Joyce	Founder of a discretionary trust	646,760,190	—	87,619,048	734,379,238	84.03%
	Interest of spouse[2]	650,000	—	—	650,000	0.07%
Mr. Yip Kai Wing	Beneficial Owner	185,000	500,000[4]	—	685,000	0.08%
	Interest of spouse[5]	—	200,000	—	200,000	0.02%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 31 March 2012 (i.e. 873,996,190 shares).

2. 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.

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

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.

5. Mr. Yip Kai Wing is the spouse of Ms. Ng Kwai Ho and is deemed to be interested in the shares in which Ms. Ng Kwai Ho is deemed or taken to be interested for the purpose of the SFO (Ms. Ng Kwai Ho is the grantee of an option in respect of 200,000 shares of HK$0.10 each of the Company under the Share Option Scheme adopted by the shareholders of the Company on 20 January 2006).

Save as disclosed above, as at 31 March 2012, none of the Directors and 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.

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 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 2012, 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	Equity Derivatives (Convertible Note)	Total Interests	Approximate Percentage of Issued Share Capital of the Company[1]
Ms. Tsang Yue, Joyce	Founder of a discretionary trust	646,760,190	87,619,048	734,379,238	84.03%
	Interest of spouse[2]	650,000	—	650,000	0.07%
Mr. Lee Soo Ghee	Beneficial owner	650,000	—	650,000	0.07%
	Interest of spouse[3]	646,760,190	87,619,048	734,379,238	84.03%

Notes:

1. The percentage has been compiled based on the total number of shares of the Company in issue as at 31 March 2012 (i.e. 873,996,190 shares).

2. 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.

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

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 2012.

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 ("Shares") 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 of the Company 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 Share Option 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 of the Company 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.

Share Option Scheme (Continued)

(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 2011	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 2012	Date of grant	Period during which options are exercisable	Exercise price	Approximate percentage of share per issued share (Note 1)
Executive Director									
Mr. Yip Kai Wing	125,000	—	—	—	125,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.01%
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	0.02%
Others	1,582,500	—	—	(37,500)	1,545,000	23/10/2006	23/10/2010 to 22/10/2016	HK$1.33	0.18%
Others	2,215,500	—	—	(52,500)	2,163,000	23/10/2006	23/10/2014 to 22/10/2016	HK$1.33	0.25%
Others	2,532,000	—	—	(60,000)	2,472,000	23/10/2006	23/10/2015 to 22/10/2016	HK$1.33	0.28%
Total	6,830,000	—	—	(150,000)	6,680,000				

Note:

1. The relevant percentages are calculated by reference to the Shares in issue on 31 March 2012, i.e. 873,996,190 shares.

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 8% (2011:9%) of the Group's total purchase for the year and the five largest suppliers taken together accounted for approximately 29% (2011:33%) 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 connected transaction and 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. Connected Transaction

The following transaction has been approved by independent shareholders at an Extraordinary General Meeting held on 27 October 2011.

On 5 July 2011, Be Universal Limited, a wholly-owned subsidiary of the Company as the purchaser and Ms. Tsang Yue, Joyce, an executive Director and the controlling shareholder of the Company, as the vendor entered into a Sale and Purchase Agreement (amended by a Supplemental Sale and Purchase Agreement dated 30 September 2011 entered into between the same parties), pursuant to which Be Universal Limited had conditionally agreed to acquire and Ms. Tsang Yue, Joyce, as the sole beneficial owner, had conditionally agreed to sell or procure the sale of the entire issued share capital of Zegna Management Limited at the consideration of HK$250 million, which would be satisfied by a convertible note with a 2% coupon per annum to be issued by the Company ("Acquisition").

Zegna Management Limited and its subsidiaries (collectively, the "Zegna Group") is engaged in a wide range of beauty care services including facial treatment, body slimming programs as well as spa, and fitness courses in Singapore and Malaysia. Upon completion of the Acquisition, each member of the Zegna Group will become a wholly-owned subsidiary of the Company and the financial results and position of the Zegna Group will be consolidated into the consolidated financial statements of the Company.

The Acquisition was completed on 10 January 2012.

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

B. Continuing Connected Transactions

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

Tenancy agreement of 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 ended on 30 September 2011.

The rental paid by the Group in relation to the premises amounted to HK$4,800,000 for the year ended 31 March 2012 (2011: HK$9,600,000). The rental is calculated based on a monthly rental of HK$800,000.

B. Continuing Connected Transactions (Continued)

(1) (Continued)

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.

(2) The following continuing connected transaction is exempt from the reporting, announcement or independent shareholder's approval requirement under Rule 14A.33 of the Listing Rules and is 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 ended on 31 December 2011, both dates inclusive.

The Carnarvon Road Tenancy Agreement was terminated in March 2011.

The rental paid by the Group in relation to the premises under the Carnarvon Road Tenancy Agreement amounted to nil for the year ended 31 March 2012 (2011: HK$336,000).

(3) The following continuing connected transactions are exempt from the reporting, annual review, announcement and independent shareholder's approval requirement under Rule 14A.33 of the Listing Rules by reason that the transactions are on normal commercial terms where each or all of the relevant percentage ratios (other than the profit ratio) are on an annual basis less than 5% and the annual consideration is less than HK$1,000,000 and are included for information only.

Tenancy agreements of 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192

On 17 February 2012, United Industries Limited, a subsidiary of Asia Power Global Limited, a company wholly owned by a family trust set up by Ms. Tsang Yue, Joyce, an Executive Director, the Chairperson of the Board and the controlling shareholder of the Company, and Spendid Overseas Pte. Ltd., a wholly-owned subsidiary of the Company, entered into two tenancy agreements pursuant to which Spendid Overseas Pte. Ltd. leased from United Industries Limited the premises at 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192 respectively as staff quarters of the Group. The duration of the tenancy agreements for 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192 is three years commencing from 3 September 2011 and from 1 January 2012 respectively.

The rental paid by the Group in relation to the premises at 21 Kovan Road #10–15 Singapore 548192 and 21 Kovan Road #9–16 Singapore 548192 under the above two tenancy agreements amounted to HK$124,406 and HK$93,305 respectively for the year ended 31 March 2012 (2011: Nil) [1]. The rental is calculated based on a monthly rental of S$5,000 for each of the above two tenancy agreements.

Note 1: Spendid Overseas Pte. Ltd. became a member of the Group with effect from 10 January 2012.

Connected Transactions (Continued)

B. Continuing Connected Transactions (Continued)

(4) 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.

Tenancy agreements of the above properties (iii) and (viii) were terminated in July 2011.

Tenancy agreements of the above properties (i), (ii), (iv), (v), (vi) were terminated in December 2011.

Connected Transactions (Continued)

B. Continuing Connected Transactions (Continued)

(5) The following transactions have been approved by independent shareholders at an Extraordinary General Meeting held on 19 December 2011.

Since the Company intended to continue to lease certain premises and, if appropriate, other premises, owned/to be owned by the subsidiaries ("Owners") of Asia Power Global Limited, a company wholly owned by a family trust set up by Ms. Tsang Yue, Joyce, from time to time in Hong Kong and/or other place(s) in the world as its operating facilities and anticipated that it would enter into new leases during the ordinary and usual course of the Group's business, the Company and Asia Power Global Limited entered into a Master Leasing Agreement ("Master Leasing Agreement") on 8 November 2011 to set out the principal terms and conditions governing the leasing of the premises by the Group from the Owners pursuant to the Master Leasing Agreement by the entering into a tenancy or leasing agreement in respect of each of the premises between the Group and the relevant Owners ("Leasing Arrangements") in the future .

The Master Leasing Agreement shall be for a term commencing from 8 November 2011 to 31 March 2014. In addition, the Master Leasing Agreement may be terminated by the Company by giving Asia Power Global Limited at least sixty days' written notice of termination. In addition, each of the Leasing Arrangements to be entered into between the Company and the relevant Owners pursuant to the Master Leasing Agreement will have a term expiring on or before 31 March 2014.

Pursuant to the Master Leasing Agreement, each of the Leasing Arrangements shall be on normal commercial terms and shall be on terms which are no less favourable than those offered by the Owners to other independent third parties and the amount of rental (exclusive of rates, land rent and management fees) under each of the Leasing Arrangements shall be determined by the Parties to each of the Leasing Arrangements with reference to the then prevailing market rents on premises comparable in location, area and permitted use.

The government rent, rates and management fee under each of the Leasing Arrangements will be paid to the government or, as the case may be, the management companies by the relevant tenant directly.

The maximum aggregate consideration payable by the Group to Asia Power Global Limited and/or the Owners (as the case may be) under the Leasing Arrangements pursuant to the Master Leasing Agreement for the period from 8 November 2011 to 31 March 2012 and each of the two years ending 31 March 2013 and 2014 are in the amounts of HK$19 million, HK$55 million and HK$55 million respectively ("Annual Caps").

Connected Transactions (Continued)

B. Continuing Connected Transactions (Continued)

(5) (Continued)

Pursuant to the Master Leasing Agreement, the Group (as tenant) and the Owners (as landlord) has entered into the following tenancy agreements:

(i) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of 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, Hong Kong at the monthly rent of HK$320,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014.

(ii) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of 18th Floor, Hou Feng Industrial Building, Nos. 1–5 Wing Kin Road, Kwai Chung, New Territories, Hong Kong at the monthly rent of HK$46,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014.

(iii) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of Workshops 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, Hong Kong at the monthly rent of HK$124,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014.

(iv) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of Shop 1 on Ground Floor and 1st Floor (with flat roof adjacent thereto) including the staircases and landings treatment 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, Hong Kong at the monthly rent of HK$134,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014.

(v) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of 1st and 2nd Floor, The Grandeur, No. 47 Jardine's Bazaar, Hong Kong at the monthly rent of HK$614,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014.

(vi) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of B74–90, B99–116 & B132–B136 on First Floor of The Commercial Accommodation of Well On Garden, No. 9 Yuk Nga Lane, Tseung Kwan O, New Territories, Hong Kong at the monthly rent of HK$157,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014.

(vii) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of Portion A of Shop 3 on Ground Floor, Unit B on Cockloft, Whole of First Floor, Whole of Block B on Second Floor and Portion of Roof, Chung On Building, Nos. 297/303 & 307/313 Sha Tsui Road, Tsuen Wan, New Territories together with Flat 1 and Flat Roof on 1st Floor, Kwong Yick Building, 315–323 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong at the monthly rent of HK$650,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014.

Connected Transactions (Continued)

B. Continuing Connected Transactions (Continued)

(5) (Continued)

(viii) tenancy agreement dated 30 January 2012 (as amended by a supplemental tenancy agreement dated 1 March 2012) in respect of 1st Floor (including its Flat Roof and Stair-Enterance on Ground Floor) King Kwong Mansion, No. 8 King Kwong Street, Hong Kong at the monthly rent of HK$65,000 exclusive of rates, Government rent, management fee and other outgoings (including but not limited to water, gas and electricity charges) for a term from 1 January 2012 to 31 March 2014.

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.

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.

Convertible Securities of the Company

On 5 July 2011, Be Universal Limited, a wholly-owned subsidiary of the Company as the purchaser and Ms. Tsang Yue, Joyce, an Executive Director and the controlling shareholder of the Company, as the vendor entered into a Sale and Purchase Agreement (amended by a Supplemental Sale and Purchase Agreement dated 30 September 2011 entered into between the same parties), pursuant to which Be Universal Limited had conditionally agreed to acquire and Ms. Tsang Yue, Joyce, as the sole beneficial owner, had conditionally agreed to sell or procure the sale of the entire issued share capital of Zegna Management Limited at the consideration of HK$250 million, which would be satisfied by a convertible note ("Convertible Note") with a 2% coupon per annum to be issued by the Company.

Principal Terms of the Convertible Note

Principal amount:	HK$250,000,000
Issue Date:	10 January 2012
Maturity Date:	the date falling on the fifth anniversary of the date of issue of the Convertible Note
Interest:	interest on the outstanding principal amount shall accrue at a rate of 2% per annum on a daily basis and shall be paid annually on 31 March of each year after the issue until conversion or redemption. The interest rate is determined with reference to, among other things, the prevailing lending rate of banks in Hong Kong
Conversion right:	holder(s) of the Convertible Note will have the right to convert the Convertible Note in whole or in part (in the amount not less than a whole multiple of HK$1,000,000 or if the remaining outstanding amount of the Convertible Note is in a lesser amount, such lesser amount) into the Conversion Shares at the Conversion Price and no conversion right attached to the Convertible Note may be exercised if following such exercise, the public float of the Company will fall below the minimum requirement as prescribed under the Listing Rules
Mandatory conversion and redemption on Maturity Date:	the principal amount of the Convertible Note which remains outstanding on the Maturity Date shall be automatically converted into the Conversion Shares at the then prevailing Conversion Price. However, in the event that such conversion would result in the Company's failure to comply with the public float requirement as prescribed under the Listing Rules, there shall not be any conversion in respect of such principal amount of the Convertible Note the conversion of which would result in the said non-compliance and in that event the balance of the Convertible Note not converted into Conversion Shares, shall be redeemed by the Company at a redemption amount equals to 100% of the principal amount of the said balance of the Convertible Note
Conversion Price:	the initial Conversion Price of HK$1.05 per Conversion Share, is determined based on the average closing of the shares of HK$0.10 each of the Company ("Shares") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on five trading days before 5 July 2011 (subject to adjustment as a result of consolidation, subdivision or reclassification of the Shares only)
Conversion Shares:	the new shares of the Company to be issued upon the exercise of the conversion right attached to the Convertible Note
Ranking of the Convertible Note:	the Convertible Note shall at all times rank pari passu with all the Company's other present and future unsecured and unsubordinated obligations
Ranking of the Conversion Shares:	the Conversion Shares will rank pari passu in all respects with the shares of HK$0.10 of the Company in issue on the date of their allotment and issue

Principal Terms of the Convertible Note (Continued)

Transferability:	the Convertible Note may be assigned or transferred in whole or in part (in the amount not less than a whole multiple of HK$1,000,000 or if the remaining outstanding amount of the Convertible Note is in a lesser amount, such lesser amount) to any person. Any transfer of the Convertible Note to a connected person of the Company shall be made in compliance with the requirement of the Stock Exchange may impose from time to time (if applicable)
Redemption Rights:	The Company shall have the right at any time during the period commencing from the date immediately following the issue date of the Convertible Note and prior to the Maturity Date, to redeem the whole of the outstanding Convertible Note at 100% of the principal amount of the Convertible Note by serving on the holder of the Convertible Note a notice to redeem which shall be effective on the third business day after its service ("Redemption Effective Date"). Notwithstanding the aforesaid, the holder(s) of the Convertible Note may exercise the right to convert all (but not part only) the outstanding Convertible Note by depositing a conversion notice at least two business days immediately before the Redemption Effective Date, and in such case, the notice to redeem given by the Company shall be treated as revoked and cease to have effect
Mandatory redemption:	the conditions to the Convertible Note contain an event of default provision which provides that on the occurrence of certain events of default, the holders of the Convertible Note may, unless such event of default has been waived in writing by them, by notice in writing require the Company to redeem the whole (but not part) of the outstanding principal amount of the Convertible Note at 100% of the principal amount of the outstanding Convertible Note

Exercise of Conversion Right under the Convertible Note

The Company received a conversion notice on 5 March 2012 ("Conversion Notice") in respect of the exercise of conversion right attached to the Convertible Note of a principal amount of HK$158,000,000 at the Conversion Price of HK$1.05 per Conversion Share. Accordingly, on 6 March 2012, 150,476,190 new Shares were issued and allotted to the holder of the Convertible Note which is an associate of Ms. Tsang Yue, Joyce, an executive Director and the controlling Shareholder.

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

During the year ended 31 March 2012, 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 2012 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 FY2012 have been audited by RSM Nelson Wheeler.

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

27 June 2012

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 57 to 106, which comprise the consolidated and Company statements of financial position as at 31 March 2012, 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.

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 2012, 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
27 June 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Note	2012 HK$'000	2011 HK$'000 (Restated)
Turnover	8	**756,605**	718,230
Other income	9	**3,589**	21,087
Cost of inventories sold		**(19,301)**	(19,691)
Advertising costs		**(11,093)**	(10,891)
Building management fees		**(15,275)**	(13,972)
Bank charges		**(36,864)**	(31,500)
Employee benefit expenses	10	**(366,753)**	(343,249)
Depreciation		**(31,162)**	(43,908)
Occupancy costs		**(115,028)**	(114,994)
Other operating expenses		**(64,035)**	(54,138)
Operating profit		**100,683**	106,974
Interest income		**995**	520
Finance costs	11	**(321)**	(3)
Profit before tax		**101,357**	107,491
Income tax expense	12	**(19,220)**	(18,228)
Profit for the year	13	**82,137**	89,263
Other comprehensive income after tax for the year:			
Gain on property revaluation		**—**	29,798
Exchange differences on translating foreign operations		**1,234**	(4,105)
Other comprehensive income for the year, net of tax		**1,234**	25,693
Total comprehensive income for the year		**83,371**	114,956
Profit for the year attributable to:			
Owners of the Company		**82,151**	89,206
Non-controlling interests		**(14)**	57
		82,137	89,263
Total comprehensive income for the year attributable to:			
Owners of the Company		**83,385**	114,899
Non-controlling interests		**(14)**	57
		83,371	114,956
Earnings per share (HK cents)	16		
— Basic		**11.19**	12.33
— Diluted		**10.62**	12.33

Consolidated Statement of Financial Position

At 31 March 2012

	Note	At 31 March 2012 HK$'000	At 31 March 2011 HK$'000 (Restated)	At 1 April 2010 HK$'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	17	**75,830**	60,237	212,449
Investment properties	18	**176,300**	175,400	—
Deposits	20	**23,032**	18,494	24,037
Deferred tax assets	21	**13,662**	22,682	29,021
		288,824	276,813	265,507
Current assets				
Inventories	22	**13,159**	11,229	8,223
Trade and other receivables, deposits and prepayments	20	**217,466**	177,219	185,260
Current tax assets		**7,728**	8,025	5,566
Pledged bank deposits	23	**7,141**	7,160	7,155
Cash and bank balances	24	**484,426**	449,495	306,718
		729,920	653,128	512,922
Total assets		**1,018,744**	929,941	778,429
EQUITY				
Capital and reserves				
Share capital	25	**87,400**	72,352	72,352
Reserves	26	**184,678**	209,098	123,655
Equity attributable to owners of the Company		**272,078**	281,450	196,007
Non-controlling interests		**65**	79	—
Total equity		**272,143**	281,529	196,007
LIABILITIES				
Non-current liabilities				
Finance lease payables	28	**18**	37	53
Convertible note	29	**4,538**	—	—
		4,556	37	53

	Note	At 31 March 2012 HK$'000	At 31 March 2011 HK$'000 (Restated)	At 1 April 2010 HK$'000 (Restated)
Current liabilities				
Trade and other payables, deposits received and accrued expenses	30	**72,412**	67,594	61,650
Deferred revenue	31	**648,623**	567,627	514,991
Finance lease payables	28	**19**	20	18
Convertible note	29	**2,738**	—	—
Current tax liabilities		**18,253**	13,134	5,710
		742,045	648,375	582,369
Total liabilities		**746,601**	648,412	582,422
Total equity and liabilities		**1,018,744**	929,941	778,429
Net current (liabilities)/assets		**(12,125)**	4,753	(69,447)
Total assets less current liabilities		**276,699**	281,566	196,060

Approved by the Board of Directors on 27 June 2012

Leung Man Kit
Director

Yip Kai Wing
Director

Statement of Financial Position

At 31 March 2012

	Note	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Investment in a subsidiary	19	**101,076**	101,076
Current assets			
Amount due from a subsidiary	19	**457,304**	146,641
Prepayments		**36**	36
Cash and bank balances	24	**1,709**	107,704
		459,049	254,381
Total assets		**560,125**	355,457
EQUITY			
Capital and reserves			
Share capital	25	**87,400**	72,352
Reserves	26	**465,438**	283,103
Total equity		**552,838**	355,455
LIABILITIES			
Non-current liabilities			
Convertible note	29	**4,538**	—
Current liabilities			
Other payables		**11**	2
Convertible note	29	**2,738**	—
		2,749	2
Total liabilities		**7,287**	2
Total equity and liabilities		**560,125**	355,457
Net current assets		**456,300**	254,379
Total assets less current liabilities		**557,376**	355,455

Approved by the Board of Directors on 27 June 2012

Leung Man Kit
Director

Yip Kai Wing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	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	Convertible note reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2010, as previously reported	72,352	146,875	3,264	(53,982)	2,246	—	—	88,444	259,199	—	259,199
Effect of the Business Combination (Note 3)	—	—	—	(70,939)	1,458	—	—	6,289	(63,192)	—	(63,192)
At 1 April 2010, as restated	72,352	146,875	3,264	(124,921)	3,704	—	—	94,733	196,007	—	196,007
Total comprehensive income for the year (Restated)	—	—	—	—	(4,105)	29,798	—	89,206	114,899	57	114,956
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	—	(4,105)	29,798	—	59,737	85,443	79	85,522
Balance at 31 March 2011 and 1 April 2011, as restated	72,352	146,875	3,277	(124,921)	(401)	29,798	—	154,470	281,450	79	281,529
Total comprehensive income for the year	—	—	—	—	1,234	—	—	82,151	83,385	(14)	83,371
Share-based payments	—	—	493	—	—	—	—	—	493	—	493
Lapse of share options	—	—	(83)	—	—	—	—	83	—	—	—
Dividend paid to the then equity holder of Zegna	—	—	—	—	—	—	—	(41,000)	(41,000)	—	(41,000)
Issue of convertible note as consideration of the Business Combination (Note 3)	—	—	—	(250,000)	—	—	230,626	—	(19,374)	—	(19,374)
Issue of shares on conversion of convertible note (Note 29)	15,048	143,124	—	—	—	—	(145,756)	—	12,416	—	12,416
2011 final dividends paid	—	—	—	—	—	—	—	(20,837)	(20,837)	—	(20,837)
2012 interim dividends paid	—	—	—	—	—	—	—	(24,455)	(24,455)	—	(24,455)
Changes in equity for the year	15,048	143,124	410	(250,000)	1,234	—	84,870	(4,058)	(9,372)	(14)	(9,386)
Balance at 31 March 2012	87,400	289,999	3,687	(374,921)	833	29,798	84,870	150,412	272,078	65	272,143

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Note	2012 HK$'000	2011 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**101,357**	107,491
Adjustments for:			
Depreciation of property, plant and equipment		**31,162**	43,908
Interest income		**(995)**	(520)
Finance costs		**321**	3
Equity-settled share-based payments		**493**	949
Gain on revaluation of investment properties		**(900)**	(12,600)
Impairment loss on amount due from a related company		**—**	375
Loss on disposals of property, plant and equipment		**243**	—
Operating profit before working capital changes		**131,681**	139,606
Increase in inventories		**(1,930)**	(3,006)
(Increase)/decrease in trade and other receivables, deposits and prepayments	32	**(49,590)**	12,213
Increase in trade and other payables, deposits received and accrued expenses		**4,818**	5,944
Increase in deferred revenue		**80,249**	45,656
Cash generated from operations		**165,228**	200,413
Interest received		**995**	520
Finance lease charges paid		**(3)**	(3)
Income tax paid		**(4,777)**	(7,570)
Net cash generated from operating activities		**161,443**	193,360
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	32	**(42,296)**	(22,443)
Proceeds from disposals of property, plant and equipment		**141**	—
Placement of fixed deposits with bank with maturity over three months		**(6,184)**	—
Decrease/(increase) in pledged bank deposits		**19**	(5)
Net cash used in investing activities		**(48,320)**	(22,448)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid to the then equity holder of Zegna		**(41,000)**	—
Dividends paid		**(45,292)**	(30,388)
Repayment of finance lease payables		**(20)**	(20)
Net cash used in financing activities		**(86,312)**	(30,408)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**26,811**	140,504
Effect of foreign exchange rate changes		**1,936**	2,273
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**449,495**	306,718
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**478,242**	449,495

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 19 to the financial statements. In the opinion of the directors of the Company, Ms. Tsang Yue, Joyce ("Ms. Tsang"), who is 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 (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 April 2011. 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.

For the year ended 31 March 2011, 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. The amendments to HKAS 12 have been applied retrospectively.

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. Basis of Preparation

Acquisition of the entire equity interest in Zegna Management Limited ("Zegna", hereinafter referred to as the "Business Combination")

Pursuant to the sale and purchase agreement dated 5 July 2011 ("SPA") entered into between BE Universal Limited ("BE Universal", a subsidiary of the Company) as purchaser and Ms. Tsang as vendor, BE Universal conditionally agreed to acquire the entire equity interest in Zegna together with its subsidiaries (collectively referred to as the "Zegna Group") from Ms. Tsang at a consideration of HK$250,000,000 which is to be satisfied by the issue of convertible note at conversion price of HK$1.05 per share ("CN").

On 30 September 2011, BE Universal and Ms. Tsang entered into a supplemental sales and purchase agreement ("Supplemental SPA") to amend and supplement certain terms of the SPA including (i) the businesses of two subsidiaries of Zegna, namely Modern Beauty Salon (S) Pte. Limited ("MBSS") and Splendid Overseas Pte. Limited ("Splendid") to be taken up by another newly set-up subsidiary; (ii) MBSS shall execute a deed of waiver in favour of Euro King Limited ("Euro King", a then subsidiary of Zegna) to discharge and release its obligations to settle any amounts due to MBSS as ascertained in a special audit up to a maximum amount of HK$70,000,000 (the "Waiver"); and (iii) the entire issued share capital of Euro King shall be transferred by Zegna to Ms. Tsang (or her nominee) at nil consideration, representing deemed partial consideration of the Business Combination; in fact that Euro King shall not form part of the Zegna Group in the Business Combination. Details of the SPA and Supplemental SPA relating to the Business Combination are set out in the announcement and circular of the Company dated 5 July 2011 and 30 September 2011 respectively.

3. Basis of Preparation (Continued)

Acquisition of the entire equity interest in Zegna Management Limited ("Zegna", hereinafter referred to as the "Business Combination") (Continued)

The Business Combination was completed on 10 January 2012 when all the precedent conditions to the Business Combination were fulfilled and the issue of the CN has taken place.

As the Company and the Zegna Group were both under the common control of Ms. Tsang before and after the Business Combination, the Business Combination was accounted for as a business combination of entities and businesses under common control. The consolidated financial statements of the Group for the year ended 31 March 2012 were prepared based on the principle of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting For Common Control Combinations" ("AG 5") issued by the HKICPA, as if the Business Combination had occurred from the date when the combining entities first came under the control of Ms. Tsang. As a result, the comparative figures in the consolidated financial statements have been restated accordingly.

The following tables summarise the combined results of operations and the financial positions of the Group and the Zegna Group for the year ended 31 March 2011 and as at 31 March 2011 and 1 April 2010 to reflect the impact of the Business Combination:

	The Group (as previously reported before the Business Combination) HK$'000	**Effect of the Business Combination** HK$'000	**The Group (as restated after the Business Combination)** HK$'000
For the year ended 31 March 2011			
Results:			
Turnover	586,527	131,703	718,230
Profit for the year	43,975	45,288	89,263
As at 31 March 2011			
Financial position:			
Non-current assets	263,226	13,587	276,813
Current assets	510,811	142,317	653,128
Total assets	774,037	155,904	929,941
Non-current liabilities	—	37	37
Current liabilities	469,754	178,621	648,375
Total liabilities	469,754	178,658	648,412
Net assets/(liabilities)	304,283	(22,754)	281,529
As at 1 April 2010			
Financial position:			
Non-current assets	251,286	14,221	265,507
Current assets	435,490	77,432	512,922
Total assets	686,776	91,653	778,429
Non-current liabilities	—	53	53
Current liabilities	427,577	154,792	582,369
Total liabilities	427,577	154,845	582,422
Net assets/(liabilities)	259,199	(63,192)	196,007

4. 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 revaluation of 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 5 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.

Intra-group 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.

Profit or loss and each component of other comprehensive income are 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.

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.

4. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

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) Merger accounting for business combination under common control

As disclosed in note 3 above, the consolidated financial statements of the Group were prepared based on the principles of merger accounting in accordance with AG 5 issued by the HKICPA, as if the Business Combination had occurred from the date when the combining entities first came under the control of Ms. Tsang. Comparative figures have been restated accordingly.

The consolidated financial statements incorporate the financial statements of the combining entities as if they had been combined from the date when they first came under the control of the controlling party.

The consolidated statements of comprehensive income and consolidated statements of cash flow include the results and cash flows of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The consolidated statements of financial position were prepared to present the assets and liabilities of the combining entities as if the Group structure as at 31 March 2012 had been in existence at the end of each reporting period. The net assets of the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest.

There was no adjustment made to the net assets nor the net profit or loss of any combining entities in order to achieve consistency of the Group's accounting policies.

(c) 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 ("HK$"), 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

4. Significant Accounting Policies (Continued)

(c) Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

— 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.

(d) 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.

(e) 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.

4. Significant Accounting Policies (Continued)

(f) Leases

(i) 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.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

(g) 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.

(h) 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.

4. Significant Accounting Policies (Continued)

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) Convertible note

Convertible note which entitle the holder to convert the note into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the value of the convertible note and the fair value assigned to the liability component, representing the embedded option for the holder to convert the note into equity of the Group, is included in equity as convertible note reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible note based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

4. Significant Accounting Policies (Continued)

(n) 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.

(o) Equity instruments

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

(p) 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.

(q) 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.

4. Significant Accounting Policies (Continued)

(q) 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 Group's subsidiaries established in Singapore are required to make contributions to defined contribution retirement benefit plans are recognised as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to an independently administered fund which is the Central Provident Fund in Singapore (a government managed retirement benefit plan).

As required by law, the Group's subsidiary established in Malaysia makes contributions to the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the profit or loss as incurred.

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.

(r) 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.

(s) 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.

4. Significant Accounting Policies (Continued)

(t) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(u) 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, 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.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

4. Significant Accounting Policies (Continued)

(u) Taxation (Continued)

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.

(v) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(w) 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.

4. Significant Accounting Policies (Continued)

(w) Impairment of assets (Continued)

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.

(x) 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.

(y) 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.

5. 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, the PRC, Singapore and Malaysia. 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.

5. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

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.

Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the directors have adopted the presumption that investment properties measured using the fair value model are recovered through sale.

6. 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 functional currency of the Group's entities are principally denominated in HK$, Singapore dollars ("S$"), Ringgit Malaysia ("RM") and Renminbi ("RMB"). The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are principally denominated in currencies other than the functional currency of respective Group entities such as RMB and European Euro ("EUR"). 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.

	Functional currency strengthened/ (weakened) by	**(Decrease)/ increase in consolidated profit after tax** HK$'000
Year ended 31 March 2012		
RMB	5%/(5%)	(3,109)/3,109 (i)
EUR	5%/(5%)	(561)/561 (ii)

(i) This is mainly a result of foreign exchange (loss)/gain on bank deposits denominated in RMB.

(ii) This is mainly a result of foreign exchange (loss)/gain on bank deposits denominated in EUR.

6. Financial Risk Management (Continued)

(a) Foreign currency risk (Continued)

As of 31 March 2011, the Group had 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.

(b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 March 2012 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.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK$'000	**Between 1 and 2 years** HK$'000	**Between 2 and 5 years** HK$'000	**Over 5 years** HK$'000
At 31 March 2012				
Trade and other payables, deposits received and accrued expenses	**72,412**	**—**	**—**	**—**
Finance lease payables	**24**	**24**	**—**	**—**
Convertible note	**2,738**	**1,840**	**5,107**	**—**
At 31 March 2011 (Restated)				
Trade and other payables, deposits received and accrued expenses	67,594	—	—	—
Finance lease payables	24	24	23	—

(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 2012, 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$3,687,000 higher/lower (2011 (Restated): HK$3,425,000 higher/lower), arising mainly as the result of the higher/lower interest income from bank deposits.

6. Financial Risk Management (Continued)

(e) Categories of financial instruments at 31 March

	2012 HK$'000	2011 HK$'000 (Restated)
Financial assets:		
Loan and receivables (including cash and cash equivalents)	**732,065**	652,368
Financial liabilities:		
Financial liabilities at amortised costs	**79,688**	67,594

(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.

7. 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 4 to the financial statements. Segment profits or losses do not include other income, interest income, finance costs, unallocated costs, which comprise corporate administrative expenses, and income tax expense. Segment assets do not include investment properties, current tax assets and deferred tax assets. Segment liabilities do not include current tax liabilities, convertible note, amounts due to related companies, amount due to ultimate controlling party, and amount due to a related party.

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

7. 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 2012			
Revenue from external customers	**709,785**	**46,820**	**756,605**
Inter-segment revenue	**—**	**22,034**	**22,034**
Segment profit	**105,724**	**24,932**	**130,656**
Other segment information:			
Additions to non-current assets	**40,188**	**6,913**	**47,101**
Depreciation	**29,261**	**1,901**	**31,162**
As at 31 March 2012			
Segment assets	**816,668**	**4,386**	**821,054**
Segment liabilities	**710,980**	**9,980**	**720,960**

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 (Restated)			
Revenue from external customers	677,293	40,937	718,230
Inter-segment revenue	—	16,278	16,278
Segment profit	87,945	21,830	109,775
Other segment information:			
Additions to non-current assets	22,094	1,349	23,443
Depreciation	43,279	629	43,908
As at 31 March 2011 (Restated)			
Segment assets	720,091	3,743	723,834
Segment liabilities	628,800	5,262	634,062

7. Segment Information (Continued)

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

	2012 HK$'000	2011 HK$'000 (Restated)
Profit or loss:		
Total profit of reportable segments	**130,656**	109,775
Other income	**3,589**	21,087
Interest income	**995**	520
Finance costs	**(321)**	(3)
Corporate administrative expenses	**(33,562)**	(23,888)
Income tax expense	**(19,220)**	(18,228)
Consolidated profit for the year	**82,137**	89,263
Assets:		
Total assets of reportable segments	**821,054**	723,834
Investment properties	**176,300**	175,400
Deferred tax assets	**13,662**	22,682
Current tax assets	**7,728**	8,025
Total assets	**1,018,744**	929,941
Liabilities:		
Total liabilities of reportable segments	**720,960**	634,062
Current tax liabilities	**18,253**	13,134
Convertible note	**7,276**	—
Amounts due to related companies	**110**	379
Amount due to ultimate controlling party	**2**	2
Amount due to a related party	**—**	835
Total liabilities	**746,601**	648,412
Other information:		
Total additions to non-current assets of reportable segments and consolidated additions	**47,101**	23,443
Total depreciation of reportable segments and consolidated depreciation	**31,162**	43,908

7. Segment Information (Continued)

Geographical information:

	Revenue		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)
Hong Kong	**616,426**	552,790	**233,487**	223,042
Mainland China	**36,124**	32,930	**2,446**	2,945
Singapore	**92,314**	119,649	**15,375**	8,911
Malaysia	**11,741**	12,861	**822**	739
Consolidated total	**756,605**	718,230	**252,130**	235,637

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 deposits.

8. Turnover

	2012	2011
	HK$'000	HK$'000
		(Restated)
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**709,785**	677,293
Sales of skincare and wellness products	**46,820**	40,937
	756,605	718,230

9. Other Income

	2012	2011
	HK$'000	HK$'000
		(Restated)
Commission income	**1,361**	3,583
Government grant income	**15**	97
Magazine subscription income	**91**	102
Gain on revaluation of investment properties	**900**	12,600
Foreign exchange gains, net	**—**	4,229
Other income	**1,222**	476
	3,589	21,087

10. Employee Benefit Expenses (Including Directors' Emoluments)

	2012 HK$'000	2011 HK$'000 (Restated)
Wages and salaries	**347,170**	323,747
Retirement benefit scheme contributions	**17,854**	15,746
Other staff welfare	**1,236**	2,807
Share-based payments (Note 27)	**493**	949
	366,753	343,249

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		**—**	**7,407**	**—**	**19**	**7,426**
Yip Kai Wing		**—**	**646**	**36**	**12**	**694**
Tung Kwok Lui	(i)	**—**	**65**	**—**	**1**	**66**
Wong Shu Pui		**—**	**838**	**—**	**12**	**850**
Leung Man Kit		**—**	**833**	**—**	**12**	**845**
Liu Mei Ling, Rhoda		**285**	**—**	**—**	**—**	**285**
Wong Man Hin, Raymond		**225**	**—**	**—**	**—**	**225**
Hong Po Kui, Martin		**225**	**—**	**—**	**—**	**225**
Total for 2012		**735**	**9,789**	**36**	**56**	**10,616**

10. 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 (Restated)	Share-based payments HK$'000	Retirement benefit scheme contribution HK$'000 (Restated)	Total HK$'000 (Restated)
Tsang Yue, Joyce		—	5,165	—	12	5,177
Lee Soo Ghee	(ii)	—	1,833	146	32	2,011
Yip Kai Wing		—	633	54	12	699
Kwong Chi Ching	(ii)	—	526	22	6	554
Tung Kwok Lui		—	839	—	12	851
Wong Shu Pui		—	844	—	12	856
Leung Man Kit		—	670	—	12	682
Liu Mei Ling, Rhoda		240	—	—	—	240
Wong Man Hin, Raymond		180	—	—	—	180
Hong Po Kui, Martin		180	—	—	—	180
Total for 2011 (Restated)		600	10,510	222	98	11,430

Notes:

(i) Resigned on 20 May 2011

(ii) Resigned on 15 September 2010. Salaries and other benefits in kind of approximately HK$372,000 and HK$619,000 paid to Lee Soo Ghee and Kwong Chi Ching respectively after their resignations of directors since 15 September 2010 had not been included in the 2011 above emoluments.

Five highest paid individuals

The five highest paid individuals in the Group during the year included 1 (2011: 3) director(s) whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 4 (2011: 2) individuals are set out below:

	2012 HK$'000	2011 HK$'000 (Restated)
Basic salaries and allowances	**3,777**	1,962
Retirement benefit scheme contribution	**163**	24
Share-based payments	**48**	54
	3,988	2,040

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

Five highest paid individuals (Continued)

The emoluments of the five highest paid individuals in the Group fell within the following band:

	Number of individuals 2012	2011 (Restated)
Nil–HK$1,000,000	**1**	1
HK$1,000,001–HK$1,500,000	**3**	2
HK$2,000,001–HK$2,500,000	**—**	1
HK$5,000,001–HK$5,500,000	**—**	1
HK$7,000,001–HK$7,500,000	**1**	—
	5	5

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.

11. Finance Costs

	2012 HK$'000	2011 HK$'000 (Restated)
Finance lease charges (Note 28)	**3**	3
Interest on convertible note wholly repayable within five years (Note 29)	**318**	—
	321	3

12. Income Tax Expense

	2012 HK$'000	2011 HK$'000 (Restated)
Current tax — Hong Kong Profits Tax		
— Provision for the year	**7,209**	3,630
— Over-provision in prior years	**(76)**	(3,340)
	7,133	290
Current tax — Overseas		
— Provision for the year	**3,058**	11,256
— Under/(over) provision in prior years	**21**	(28)
	3,079	11,228
Deferred tax (Note 21)	**9,008**	6,710
	19,220	18,228

Hong Kong Profits Tax is provided at 16.5% (2011: 16.5%) based on the assessable profits for the year.

12. Income Tax Expense (Continued)

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

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 2012 (2011: 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 and the product of profit before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2012 **HK$'000**	2011 HK$'000 (Restated)
Profit before tax	**101,357**	107,491
Tax at the domestic tax rate of 16.5%	**16,724**	17,736
Tax effect of tax exemption	**(443)**	(274)
Tax effect of income that is not taxable	**(498)**	(2,771)
Tax effect of expenses that is not deductible	**2,356**	2,100
Over-provision in prior years	**(55)**	(3,368)
Tax effect of utilisation of tax losses not previously recognised	**(240)**	(594)
Tax effect of tax losses and other temporary differences previously recognised and reversed	**894**	4,242
Tax effect of temporary differences not recognised	**(177)**	83
Tax effect of tax losses not recognised	**249**	627
Effect of different tax rates of subsidiaries	**410**	447
Income tax expense	**19,220**	18,228

13. Profit for the Year

Profit for the year is stated after charging the following:

	2012 HK$'000	2011 HK$'000 (Restated)
Auditors' remuneration	**2,387**	1,742
Depreciation	**31,162**	43,908
Direct operating expenses of investment properties that did not generate rental income	**74**	53
Foreign exchange loss	**3,356**	—
Impairment loss on amount due from a related company	**—**	375
Operating lease charges for land and buildings	**115,028**	114,994
Loss on disposals of property, plant and equipment	**243**	—

14. 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$860,000 (2011: HK$1,006,000).

15. Dividends

	2012 HK$'000	2011 HK$'000
Interim dividend of HK3.38 (2011: HK1.4) cents per ordinary share	**24,455**	10,129
2011 final dividend of HK2.88 cents per ordinary share	**—**	20,837
2012 proposed final dividend of HK4.25 cents per ordinary share	**37,145**	—
	61,600	30,966

16. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following:

	2012 HK$'000	2011 HK$'000 (Restated)
Earnings		
Earnings for the purpose of calculating basic earnings per share	**82,151**	89,206
Finance costs saving on conversion of convertible note outstanding	**318**	—
Earnings for the purpose of calculating diluted earnings per share	**82,469**	89,206

	2012	2011
Number of shares		
Issued ordinary shares at 1 April	**723,520,000**	723,520,000
Effect of conversion of convertible note	**10,689,565**	—
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**734,209,565**	723,520,000
Effect of dilutive potential ordinary shares arising from convertible note outstanding	**42,003,643**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**776,213,208**	723,520,000

17. Property, Plant and Equipment

	Group						
	Land and buildings	**Leasehold improvements**	**Equipment and machinery**	**Furniture and fixtures**	**Motor vehicles**	**Computers**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost							
At 1 April 2010, as previously reported	137,865	124,301	58,881	1,965	10,228	7,359	340,599
Effect of the Business Combination (Note 3)	—	11,613	9,668	2,560	379	473	24,693
At 1 April 2010, as restated	137,865	135,914	68,549	4,525	10,607	7,832	365,292
Additions	—	15,924	5,313	118	558	1,530	23,443
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	—	1,462	723	181	19	47	2,432
At 31 March 2011 and 1 April 2011, as restated	—	130,812	62,855	4,824	11,184	9,093	218,768
Additions	—	27,111	13,668	682	4,935	705	47,101
Disposals/write off	—	(8,362)	(980)	(1,170)	(277)	(106)	(10,895)
Exchange differences	—	186	99	10	(14)	17	298
At 31 March 2012	—	149,747	75,642	4,346	15,828	9,709	255,272
Depreciation							
At 1 April 2010	2,432	76,348	45,976	1,212	7,469	6,103	139,540
Effect of the Business Combination (Note 3)	—	4,555	6,594	1,452	268	434	13,303
At 1 April 2010 and, as restated	2,432	80,903	52,570	2,664	7,737	6,537	152,843
Charge for the year	2,431	28,249	8,717	827	2,407	1,277	43,908
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	—	649	387	87	13	41	1,177
At 31 March 2011 and 1 April 2011, as restated	—	87,313	49,944	3,578	10,157	7,539	158,531
Charge for the year	—	20,372	7,349	556	2,074	811	31,162
Disposals/write off	—	(8,147)	(862)	(1,119)	(277)	(106)	(10,511)
Exchange differences	—	160	80	8	(4)	16	260
At 31 March 2012	—	99,698	56,511	3,023	11,950	8,260	179,442
Carrying amount							
At 31 March 2012	—	50,049	19,131	1,323	3,878	1,449	75,830
At 31 March 2011 (Restated)	—	43,499	12,911	1,246	1,027	1,554	60,237

17. 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 was HK$162,800,000. The gain on revaluation of HK$29,798,000 was credited to the property revaluation reserve directly.

As at 31 March 2012, the carrying amount of motor vehicles held by the Group under finance leases amounted to HK$Nil (2011: HK$27,000).

18. Investment Properties

	Group HK$'000
At 1 April 2010	**—**
Reclassified from property, plant and equipment	**162,800**
Fair value gain	**12,600**
At 31 March 2011	**175,400**
Fair value gain	**900**
At 31 March 2012	**176,300**

Investment properties were revalued at 31 March 2012 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.

19. Investment in a Subsidiary

	The Company	
	2012 HK$'000	2011 HK$'000
Unlisted investments, at cost	**101,076**	101,076

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

19. Investment in a Subsidiary (Continued)

Particulars of the principal subsidiaries as at 31 March 2012 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	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
Spread Full Limited	Hong Kong	1 ordinary share of HK$1	—	100%	Provision of beauty and wellness services, Hong Kong
Zegna	Hong Kong	1 ordinary share of HK$1	—	100%	Investment holding, Hong Kong
MBSS	Singapore	150,000 ordinary shares of S$1 each	—	100%	Provision of beauty and wellness services, Singapore

19. Investment in a Subsidiary (Continued)

Particulars of the principal subsidiaries as at 31 March 2012 are as follows (Continued):

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest		Principal activities and place of operation
			Direct	Indirect	
Splendid	Singapore	150,000 ordinary shares of S$1 each	—	100%	Provision of beauty and wellness services, Singapore
Lucky Marketing Management Company Pte. Limited	Singapore	100,000 ordinary shares of S$1 each	—	100%	Provision of beauty consultancy, marketing and management services, Singapore
M Wellness Pte. Limited	Singapore	150,000 ordinary shares of S$1 each	—	100%	Provision of beauty and wellness services, Singapore
Beauclear Enterprise Sdn. Bhd.	Malaysia	500,000 ordinary shares of RM1 each	—	100%	Provision of beauty and wellness services and sales of skincare and wellness products, Malaysia
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
Modern Beauty Management Company Limited	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

19. Investment in a Subsidiary (Continued)

Particulars of the principal subsidiaries as at 31 March 2012 are as follows (Continued):

Name	Place of incorporation/ registration	Issued and paid up capital	Percentage of ownership interest		Principal activities and place of operation
			Direct	Indirect	
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
Rise Luck Development Limited	Hong Kong	1,000 ordinary shares of HK$1 each	—	100%	Property holdings, 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 2012.

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

20. Trade and other Receivables, Deposits and Prepayments

	Group 2012 HK$'000	2011 HK$'000 (Restated)
Non-current assets		
Rental and other deposits	**23,032**	18,494
Current assets		
Trade receivables	**51,915**	47,195
Trade deposits retained by banks and credit card companies (Note)	**125,953**	87,952
Rental and other deposits, prepayments and other receivables	**39,248**	41,982
Amounts due from related companies (Note 35(b))	**350**	90
	217,466	177,219
	240,498	195,713

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 180 days (2011: 150 days) from the date of billings.

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

	Group 2012 HK$'000	2011 HK$'000 (Restated)
0 – 30 days	**24,292**	22,918
31 – 60 days	**12,200**	8,795
61 – 90 days	**10,581**	10,621
91 – 150 days	**3,991**	4,021
Over 150 days	**851**	840
	51,915	47,195

20. Trade and other Receivables, Deposits and Prepayments (Continued)

As of 31 March 2012, trade receivables of approximately HK$1,801,000 are past due but not impaired (2011: HK$2,517,000). 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	
	2012	2011
	HK$'000	HK$'000
		(Restated)
0 – 30 days	**598**	791
31 – 60 days	**301**	188
61 – 90 days	**74**	402
91 – 150 days	**—**	308
Over 150 days	**828**	828
	1,801	2,517

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

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
HK$	**50,474**	45,740
S$	**994**	814
RM	**341**	559
RMB	**106**	82
Total	**51,915**	47,195

21. 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	Deferred revenue HK$'000	Provision HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April 2010, as previously reported	—	9,751	—	—	16,439	26,190
Effect of the Business Combination (Note 3)	(59)	—	2,890	—	—	2,831
At 1 April 2010, as restated	(59)	9,751	2,890	—	16,439	29,021
Charged to profit for the year (Note 12)	15	(698)	820	—	(6,847)	(6,710)
Exchange differences	(4)	—	276	—	99	371
At 31 March 2011 and 1 April 2011, as restated	(48)	9,053	3,986	—	9,691	22,682
Charge to profit for the year (Note 12)	(117)	(188)	(316)	10	(8,397)	(9,008)
Exchange differences	1	6	(61)	—	42	(12)
At 31 March 2012	(164)	8,871	3,609	10	1,336	13,662

At the end of the reporting period the Group has unused tax losses of HK$42,419,000 (2011 (Restated): HK$89,561,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$5,424,000 (2011 (Restated): HK$56,017,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$36,995,000 (2011 (Restated): HK$33,544,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$19,138,000 (2011 (Restated): HK$15,903,000) that will expire in five years from year the losses were incurred. Other tax losses may be carried forward indefinitely.

22. Inventories

As at 31 March 2012 and 31 March 2011, inventories represented finished goods.

23. 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 denominated in United States dollars ("US$") at floating interest rate of 0.05% (2011: 0.09%) per annum and therefore are subject to foreign currency risk and cash flow interest rate risk.

24. Cash and Bank Balances

The Group's cash and bank balances comprise the following:

	Group 2012 HK$'000	2011 HK$'000 (Restated)
Cash at bank and cash in hand	**344,770**	408,803
Short-term bank deposits	**133,472**	40,692
Cash and cash equivalents	**478,242**	449,495
Fixed deposits with bank with maturity over three months	**6,184**	—
Cash and bank balances	**484,426**	449,495

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

	Group 2012 HK$'000	2011 HK$'000 (Restated)
HK$	**224,265**	297,820
US$	**98**	99
S$	**135,285**	107,120
EUR	**13,445**	—
RM	**13,536**	19,211
RMB (Note)	**97,797**	25,245
	484,426	449,495

Note: Conversion of RMB 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 bank balances represented cash at bank and cash in hand and are denominated in HK$.

25. Share Capital

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.1 each		
At 1 April 2010, 31 March 2011 and 31 March 2012	**10,000,000,000**	**1,000,000**

	Number of shares	Amount HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2010, 31 March 2011 and 1 April 2011	723,520,000	72,352
Issue of shares on conversion of convertible note (Note 29)	150,476,190	15,048
At 31 March 2012	873,996,190	87,400

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.

26. 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.

26. Reserves (Continued)

(b) Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Contributed surplus HK$'000	Convertible note reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 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 and 1 April 2011	146,875	3,277	47,076	—	85,875	283,103
Share-based payments	—	493	—	—	—	493
Lapse of share options	—	(83)	—	—	83	—
Loss for the year	—	—	—	—	(860)	(860)
Issue of convertible note (Note 29)	—	—	—	230,626	—	230,626
Issue of shares on conversion of convertible note (Note 29)	143,124	—	—	(145,756)	—	(2,632)
2011 final dividends paid	—	—	—	—	(20,837)	(20,837)
2012 interim dividends paid	—	—	—	—	(24,455)	(24,455)
At 31 March 2012	289,999	3,687	47,076	84,870	39,806	465,438

(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 4(r) to the financial statements.

26. Reserves (Continued)

(c) Nature and purpose of reserves (Continued)

(iii) Merger reserve

The merger reserve mainly represents the aggregate of:

— Pursuant to the Group's reorganisation effected on 24 January 2006 (the "Reorganisation"), the Company acquired the share capital of Koladen Enterprises Inc. in consideration of allotment and issue of 539,999,925 shares to its corporate shareholders, Silver Compass Holdings Corp. and Silver Hendon Enterprises Corp. 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.

— A debit amount of approximately HK$71,488,000, representing the deemed partial consideration of the Business Combination, being the net asset value of Euro King after the Waiver disposed to Ms. Tsang at nil consideration, pursuant to the Supplemental SPA of the Business Combination as defined in note 3 to the financial statements; in fact that Euro King did not form part of the Zegna Group in the Business Combination.

— A credit balance of approximately HK$549,000, being the difference between the aggregated amount of nominal value of the shares of subsidiaries acquired by Zegna and the relevant consideration paid.

— A net debit amount of HK$249,999,999, being the difference between (i) the value of the CN amounting to HK$250,000,000 issued for the Business Combination as defined in note 3 to the financial statements; and (ii) the nominal value of the share capital of Zegna.

(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 4(c)(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.

(vii) Convertible note reserve

The convertible note reserve represents the equity component of the convertible note at initial recognition, representing the embedded option for the holder to convert the note into equity of the Company.

27. 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 44 to 45 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 2012					
Directors	**500,000**	**—**	**—**	**500,000**	**125,000**
Senior management	**650,000**	**—**	**—**	**650,000**	**162,500**
Other employees	**5,680,000**	**—**	**(150,000)**	**5,530,000**	**1,382,500**
	6,830,000	**—**	**(150,000)**	**6,680,000**	**1,670,000**
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

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.

28. Finance Lease Payables

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**24**	24	**19**	20
In the second to fifth years, inclusive	**24**	47	**18**	37
	48	71	**37**	57
Less: Future finance charges	**(11)**	(14)	**N/A**	N/A
Present value of lease obligations	**37**	57	**37**	57
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(19)**	(20)
Amount due for settlement after 12 months			**18**	37

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 7 years. During the year, the average effective borrowing rate was 6.39% (2011: 6.39%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance lease payables are denominated in RM and secured by the lessor's title to the leased assets.

29. Convertible Note

The Company has issued CN with value of HK$250,000,000 to Ms. Tsang on 10 January 2012 to settle the consideration of the Business Combination. Ms. Tsang is entitled to convert the CN in whole or in part (in the amount not less than a whole multiple of HK$1,000,000 or if the remaining outstanding amount of the CN is in a lesser amount, such lesser amount) into new ordinary shares of the Company at the conversion price of HK$1.05 per share at any time between the date of issue of the CN and 9 January 2017. No conversion right attached to the CN may be exercised if following such exercise, the public float of the Company will fall below the minimum requirement as prescribed under the Listing Rules. The value of the CN which remains outstanding on the maturity date shall be automatically converted into the new ordinary shares of the Company at the then prevailing conversion price. However, in the event that such conversion would result in the Company's failure to comply with the public float requirement as prescribed under the Listing Rules, there shall not be any conversion in respect of such value of the CN and the balance of the CN not converted into the shares of the Company, shall be redeemed by the Company at a redemption amount equals to 100% of the value of the said balance of the CN.

The CN bears interest of 2% per annum and shall be payable annually on each 31 March. Details of CN are disclosed in the Company's announcement and circular dated 5 July 2011 and 30 September 2011 respectively.

On 6 March 2012, CN with value of HK$158,000,000 were converted into 150,476,190 ordinary shares of the Company, details of the conversation are disclosed in the Company's announcement dated 5 March 2012.

29. Convertible Note (Continued)

The value of the CN has been split into the liability element and an equity component, as follows:

	The Company and the Group HK$'000
Value of CN issued	**250,000**
Equity component	**(230,626)**
Liability component at date of issue	**19,374**
Interest charged	**318**
Converted into ordinary shares of the Company	**(12,416)**
Liability component at 31 March 2012	**7,276**
Less: Amount due within one year	**(2,738)**
Amount due over one year	**4,538**

The interest charged for the year is calculated by applying an effective interest rate of 9.15% to the liability component for the 3 months period since the CN was issued.

The directors estimate the fair value of the liability component of the CN at 31 March 2012 to be approximately HK$6,858,000. This fair value has been calculated by discounting the future cash flows at the market rate.

30. Trade and other Payables, Deposits Received and Accrued Expenses

	Group	
	2012 HK$'000	2011 HK$'000 (Restated)
Trade payables	**1,276**	640
Other payables, deposits received and accrued expenses	**71,024**	65,738
Amount due to a related party (Note 35(b))	**—**	835
Amount due to ultimate controlling party (Note 35(b))	**2**	2
Amounts due to related companies (Note 35(b))	**110**	379
	72,412	67,594

30. Trade and other Payables, Deposits Received and Accrued Expenses (Continued)

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

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Within 90 days	**1,142**	634
Over 90 days	**134**	6
	1,276	640

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

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
HK$	**669**	397
S$	**527**	140
RM	**48**	29
RMB	**32**	74
	1,276	640

31. Deferred Revenue

An ageing analysis of the deferred revenue is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Within 1 year	**516,355**	407,366
More than 1 year but within 2 years	**63,423**	103,027
More than 2 years but within 3 years	**68,845**	57,234
	648,623	567,627

31. Deferred Revenue (Continued)

Movement of deferred revenue:

	Group 2012 HK$'000	2011 HK$'000 (Restated)
At beginning of year	**567,627**	514,991
Gross receipts for sales of prepaid beauty packages	**790,034**	722,949
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(709,785)**	(677,293)
Exchange differences	**747**	6,980
At end of year	**648,623**	567,627

32. Notes to Consolidated Statement of Cash Flows

Major non-cash transactions

Consideration for the additions to property, plant and equipment during the year was settled by offsetting the deposits of HK$4,805,000 (2011: HK$1,000,000) paid to the sellers in prior year.

33. Commitments

(a) Commitments under operating leases

At 31 March 2012, the total future minimum lease payments under non-cancelable operating leases are payable as follows:

	Group 2012 HK$'000	2011 HK$'000 (Restated)
Not later than one year	**124,908**	90,885
Later than one year and not later than five years	**115,127**	82,794
	240,035	173,679

Operating lease payments represent rentals payable by the Group for certain of its beauty service centres, retail shops, offices, staff quarters and warehouses operated by the subsidiaries. Leases are negotiated for an average term of 3 years (2011: 3 years) and rentals are either fixed over the lease terms or 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.

33. Commitments (Continued)

(b) Capital commitments

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

	Group	
	2012	2011
	HK$'000	HK$'000
Contracted but not yet provided for:		
Acquisition of plant and equipment	**12,389**	14,995

34. 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.

35. 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:

	2012	2011
	HK$'000	HK$'000
		(Restated)
Rental expenses paid to related companies (Note (i)):		
— All Link International Limited	**—**	160
— Chain Tech International Limited	**—**	336
— East Union Industries Limited	**636**	910
— Joy East Limited	**222**	201
— Luck Elegant Industrial Limited	**74**	1,051
— Golden National Limited	**6,750**	9,600
— United Industries Limited	**689**	—
— Well Faith International Enterprise Limited	**4,573**	4,450
— Wise World Limited	**755**	847
	13,699	17,555
Donation paid to a related company (Note (ii)):		
— Grateful Heart Charitable Foundation Limited ("Grateful Heart")	**5**	113
Impairment loss on amount due from a related company (Note (ii)):		
— CC2(S) Pte. Limited	**—**	375
Interest charge on convertible note issued to ultimate controlling party:		
— Ms. Tsang	**318**	—

35. Related Party Balances and Transactions (Continued)

(a) Related party transactions (Continued)

	2012 HK$'000	2011 HK$'000 (Restated)
Salaries and other benefits in kind paid to related parties:		
— Related party A (Note (iii))	**874**	2,383
— Related party B (Note (iv))	**1,173**	1,173
— Related party C (Note (iv))	**77**	77
— Related party D (Note (v))	**378**	448
	2,502	4,081

Notes:

(i) 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.

(ii) Ms. Tsang is the ultimate controlling party of the related company.

(iii) Related party A is the spouse of a director, Ms. Tsang.

(iv) Related party B and C are the sons of a director, Ms. Tsang.

(v) Related party D is the spouse of a director, Mr. Yip Kai Wing.

(b) Balances with related parties

The amounts due from/to related companies/a related party/ultimate controlling party 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 2012 HK$'000	Balance at 1 April 2011 HK$'000 (Restated)	Maximum amount outstanding during the year HK$'000
Artemis Beauty Supplies Pte. Limited (formerly known as Kin Yue Biomedical Technology Wellness Centre (S) Pte. Limited)	**—**	14	29
All Link International Limited	**1**	—	57
Chain Tech International Limited	**1**	—	1
Euro King	**—**	18	214
Lucky Forever (S) Pte. Limited	**7**	—	7
Grateful Heart	**143**	58	159
United Industries Limited	**198**	—	260
	350	90	

35. Related Party Balances and Transactions (Continued)

(c) Guarantee

Since the date of the Company's share listed on the Main Board of the Stock Exchange, Ms. Tsang had indemnified certain companies within the Group of HK$10,000,000 against any loss resulting from any litigation and claims occurred prior to the listing. With effective from 1 March 2012, the relevant guarantee of indemnities has been terminated.

(d) Key management compensation

	Group	
	2012	2011
	HK$'000	HK$'000
		(Restated)
Fees	**735**	600
Salaries and allowances	**9,789**	10,510
Retirement benefit scheme contribution	**56**	98
Share-based payments	**36**	222
	10,616	11,430

36. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2012.

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				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Turnover	**756,605**	718,230	551,377	724,059	870,726
Profit/(loss) before tax	**101,357**	107,491	(7,982)	(10,543)	283,985
Income tax (expense)/credit	**(19,220)**	(18,228)	4,887	(240)	(49,313)
Profit/(loss) for the year	**82,137**	89,263	(3,095)	(10,783)	234,672

Consolidated Assets and Liabilities

	As at 31 March				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Total non-current assets	**288,824**	276,813	265,507	174,434	155,275
Total current assets	**729,920**	653,128	512,922	571,617	667,179
Total assets	**1,018,744**	929,941	778,429	746,051	822,454
Total non-current liabilities	**(4,556)**	(37)	(53)	(1,119)	(1,123)
Total current liabilities	**(742,045)**	(648,375)	(582,369)	(540,481)	(511,214)
Total liabilities	**(746,601)**	(648,412)	(582,422)	(541,600)	(512,337)
Net assets	**272,143**	281,529	196,007	204,451	310,117

www.modernbeautysalon.com

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

Stock Code 股份代號：919

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