



Chairperson's Statement





On behalf of the Board of Directors (the “Board” or the “Directors”), I am delighted to present the first annual report of Modern Beauty Salon Holdings Limited and its subsidiaries following its going public in the Hong Kong stock market on 9 February 2006.

The successful listing on the Main Board of the Stock Exchange of Hong Kong not only marked a significant milestone in the Group’s history, but also laid a solid foundation for its long-term growth and development. Being a listed company, I appreciate that a higher expectation has been placed on the Group. The Board shall, on the one hand, exert more effort to promote corporate governance and internal control with an aim to enhance corporate transparency of the Group. On the other hand, we will grasp the favorable opportunities arising from our listing status to render solid return for our shareholders.

Since inception in 1991, Modern Beauty has grown rapidly and impressively. Staying at the forefront of the beauty and healthcare services industry, we pledge to hold on to our focus on delivering comprehensive and quality services to our customers and reinforcing our presence in Hong Kong. We spare no effort to seek to extend our reach beyond existing turf, striving to become one of the premier beauty and healthcare services providers in the China region in the long run.

Financial Performance

The financial year of 2005/06 was a fruitful year for Modern Beauty. We continued to achieve a strong performance for the year ended 31 March 2006, albeit vigorous competition in the beauty services market. The Group recorded a total turnover of HK\$498.3 million for the year under review (2005: HK\$456.9 million), representing a year-on-year growth of 9.1%. Net profit attributable to shareholders reached HK\$122.5 million, posting a significant increase of 16.5% as compared to HK\$105.2 million in 2005. The Group had strong cash flow with cash and bank deposits of HK\$617.9 million (2005: HK\$365.8 million), with nil borrowings for the year. Earnings per share in 2006 was HK21.68 cents (2005: HK19.48 cents per share based on 540,000,000 shares assuming the Reorganisation has been completed on 1 April 2004).

With a solid financial position and in view of our strong cash flow, the Board has recommended a final dividend of HK13.8 cents per share for the year 2005/06. This translates into a 81.1% dividend payout ratio of the current year profit.



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Market and Business

On the back of rising popularity of beauty and healthcare services in Hong Kong, the hunt for quality service providers is ever demanding. Constantly upgrading our customer services is always the Group's top priority. We place great emphasis on staff development and provide professional training programmes on a regular basis at our Beauty Expert International College with an aim to equip our staff with up-to-date skills to perfect their servicing level. Our unrelenting efforts to improve our services have been repaid with the service centre at Hopewell Centre being awarded the **ISO9001:2000 Quality Certification** by the British Standards Institution during the financial year 2005/06.

Being a key player in the beauty and healthcare services market in Hong Kong, we continue evaluating our service standard and operational systems with an eye to providing the best services to our customers at all times. To further improve our operational efficiency and customer services, we kicked off a "service enhancement program" during the year, which comprises initiatives to extend the validity period for our prepaid packages as well as plans for a special IVRS customer service hotline and online booking system. Such a strategic move vindicated our determination to make Modern Beauty the service provider of choice in the industry.

We had good progress in the operation and business development for the year 2005/06. We recorded satisfactory growth in our customer base which expanded from 131,000 customers as at 31 March 2005 to 154,000 as at 31 March 2006, representing an increase of 17.6%. We moved on with our network expansion plan to keep pace with the growing needs of our customers and extended our reach to newly-developed and high-density residential districts during the year. Four new service centres located in Yuen Long, Tuen Mun, Tai Wai and Causeway Bay were added to our network, bringing the Group's total number of service centres to 17 as at 31 March 2006.

With regard to beauty and skincare products, we put in a good deal of resources to promote our own brandname "**be**" to foster public awareness in the market. We proactively broadened the retail network from service centres of our own to a number of renowned personal care chain stores during the year. We will keep expanding our turf to solidify customer loyalty, which, in turn, would further drive contribution to our future revenue.



Looking Ahead

Moving forward, we will continue to stick to our service network roll-out plan by opening seven more service centres in Hong Kong, making the total hit 24 by the end of the financial year 2006/07. In the light of increasing popularity of men's beauty services, there is no doubt that the room for expansion in this particular segment is enormous. Upon making entry into the market in the brandname of "**be homme**", we will invest more resources to strengthen our brand position and seize the immense growth opportunities to the full. Leveraging on our forefront position in the industry, we will continue to make every endeavour to enhance our core competencies by offering more quality beauty and healthcare services to our customers.

The robust economic development in Mainland China in recent years has resulted in a surge in spending power, in particular among mid- and high-income groups in the cities. Driven by a quest for healthy and modern lifestyle, we have witnessed a mounting demand for quality and professional beauty and healthcare services. To capitalize on this market uptrend, we have no hesitation in establishing our beachheads in major cities including Beijing, Shanghai, Guangzhou and Shenzhen via setting up of self-owned-and-managed centres as well as joint venture partnership with local partners on the Mainland when appropriate opportunities arise. We aim to establish a truly national footprint with presences in both first- and second-tier of cities in the longer run. We believe Modern Beauty is well placed to seize this golden opportunity to venture into the China market and is confident of capturing the huge potential that comes along.

Lastly, on behalf of the Board, I would like to take this opportunity to express my appreciation to the Group's management and staff for their dedication and valuable contribution to the success of Modern Beauty. I would also like to extend my sincere thanks to our customers and shareholders for their continuous support and trust in us. We strive for excellence and would do our very best to maximize returns for our stakeholders in the forthcoming years.

Ms. Tsang Yue Joyce

Chairperson and Chief Executive Officer

Hong Kong, 6 July 2006