Notes to the Financial Statements

1 General information

Modern Beauty Salon Holdings Limited (the "Company") was incorporated in the Cayman Islands on 19 August 2005. The shares have been listed on the Main Board of the Stock Exchange of Hong Kong (the "Stock Exchange") since 9 February 2006. Pursuant to a group reorganisation ("Reorganisation") in preparation of the listing of the shares of the Company on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 24 January 2006. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group ("the Group"). Accordingly, the consolidated financial statements of the Group for the year ended 31 March 2005 have been prepared using the merger basis of accounting as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of beauty and healthcare services. The address of its registered office is M&C Corporate Services Limited, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The financial statements have been approved for issue by the Board of Directors on 6 July 2006.

The Group is controlled by Silver Compass Holdings Corp. (incorporated in the British Virgin Islands), which owns 51% of the Company's shares. The remaining 24% of the shares are held by Silver Hendon Enterprises Corporation and 25% are widely held. The Directors regard Sliver Compass Holdings Corporation as being the immediate and ultimate holding company.

These financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the year's presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. These consolidated financial statements have been prepared under historical cost convention except that financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated amounts are disclosed in Note 4.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS

For the year ended 31 March 2006, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 31 March 2005, comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases - Incentives
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 33, 36, HKAS-Int 15 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

— The adoption of HKAS 1 has affected the presentation of certain disclosures.

— HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 27, 33, 36, HKAS-Int 15 and HKFRS 3 do not have any impact as the Group's accounting policies already comply with the standards.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

— The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

— HKAS 24 has affected some other related-party disclosures.

— The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in the recognition of the derivative financial instruments at fair value, the changes in the recognition and measurement of hedging activities, the change in recognition, measurement and offsetting certain financial assets and liabilities.

— The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payment. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods to the income statement.

The adoption of HKAS 32 and HKAS 39 resulted in:

	2006 **HK$'000**
Increase in financial assets at fair value through profit or loss	**67,979**
Decrease in other investments	**67,979**

The adoption of HKFRS 2 resulted in:

	2006 **HK$'000**
Increase in equity	**444**
Increase in staff costs	**444**

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

All changes in the accounting policies have been made in accordance with the respective transitional provisions of the respective standards, which require retrospective application to prior year comparatives other than:

— HKAS 39 - recognises all derivatives at fair value in the balance sheet on 1 January 2005 and adjusts the balance to retained earnings as at that date.

— HKAS-Int 15 - does not require recognition of incentives for leases commencing before 1 January 2005.

— HKFRS 3 - prospective from 1 January 2005.

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

— HKAS 1 Amendment Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)

The revised standard will affect the disclosures of qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; compliance with any capital requirements; and the consequences of any non-compliance. The Group will apply this amendment from annual periods beginning 1 April 2007.

— HKAS 19 Amendment Employee Benefits (effective from 1 January 2006)

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning 1 April 2006.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

— HKAS 39 Amendment Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 March 2006 and 2005.

— HKAS 39 Amendment The Fair Value Option (effective from 1 January 2006)

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through income statement. The Group will apply this amendment from annual periods beginning 1 April 2006.

— HKAS 39 & HKFRS 4 Amendments Financial Guarantee Contracts (effective from 1 January 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

— HKFRS 7 Financial Instruments Disclosures (effective from 1 January 2007)

HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 April 2007.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

— HKFRS-Int 4 Determining Whether an Arrangement Contains a Lease (effective from 1 January 2006)

HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

(b) Consolidation

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

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

2 Summary of significant accounting policies *(Continued)*

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(e) Leasehold land prepayments

Leasehold land prepayments are up-front payments to acquire long-term interests in owner-occupied properties. These payments are stated at cost and are amortised as an expense on a straight-line basis over the period of the lease.

(f) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Leasehold improvements are depreciated over the period of lease or their expected useful lives to the Group whichever is shorter. Other property, plant and equipment are depreciated at rates sufficient to write off their costs over their expected useful lives on a straight-line basis. The principal annual rates are as follows:

— Leasehold buildings	Over the lease term
— Leasehold improvements	Over the lease term
— Equipment and machinery	4 years
— Furniture and fixtures	4 years
— Motor vehicles	3 years
— Computers	3 years

2 Summary of significant accounting policies *(Continued)*

(f) Property, plant and equipment *(Continued)*

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(g) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(h) Financial asset at fair value through profit or loss/other investments

Prior to 31 March 2005:

The Group classified its investments as other investments and carried at fair value in accordance with Statement of Standard Accounting Practice 24 Accounting for Investments in Securities ("SSAP 24"). At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profit or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arised.

From 1 April 2005 onwards:

The Group reclassifies its other investments as financial assets at fair value through profit or loss in accordance with HKAS 39. Financial assets at fair value through profit or loss were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of the financial asset were recognised in the income statement. The HKAS has not been applied retrospectively as the HKAS 39 generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. There is no changes in the accounting treatment/recognition of these investments as a result of the adoption of HKAS 39 and there is no adjustment to the retained earnings as a result of the adoption of HKAS 39.

A financial asset is classified as financial asset at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management.

2 Summary of significant accounting policies *(Continued)*

(h) Financial asset at fair value through profit or loss/other investments *(Continued)*

From 1 April 2005 onwards: *(Continued)*

Purchases and sales of such investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all other investments/financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Other investments/financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the other investments/ financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of other investments/financial assets is impaired.

(i) Inventories

Inventories, which comprise goods held for resale, are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis for inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the selling expenses.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2 Summary of significant accounting policies *(Continued)*

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares, other than on a business combination, are taken to equity as a deduction, net of tax, from the proceeds.

(m) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

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

2 Summary of significant accounting policies *(Continued)*

(n) Employee benefits *(Continued)*

(iii) Retirement benefit costs

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

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

(iv) Termination benefits

Termination benefits are payable according to local labour regulation whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

(o) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as employee share option expense in income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to employee share-based compensation reserve over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2 Summary of significant accounting policies *(Continued)*

(p) Provisions

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

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

(q) Revenue recognition

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

Revenue from provision of beauty and healthcare services is recognised when the service treatments are delivered to customers from time to time and in accordance with the terms of the underlying agreements over a period of not more than three years from the date of purchases. Prepaid beauty packages over three years from the date of purchase were fully recognised as sales.

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

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

(r) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2 Summary of significant accounting policies *(Continued)*

(s) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events only wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(t) Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as other investments/financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group has no significant concentrations of credit risk. Sales to retail customers are made in cash or via major credit cards.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(d) Interest rate risk

The Group has significant interest-bearing assets mainly in the form of cash and cash equivalents. As a result, the Group is exposed to changes in market interest rates.

3.2 Fair value estimation

The carrying amounts of the following other investments/financial assets and liabilities approximate their fair value: cash and cash equivalents, pledged bank deposits, trade and other receivables less credit adjustments, deposits and prepayments, amounts due from/to related parties and a director, trade and other payables, deposits received and accrued expenses.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for other investments/financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

4 Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of store renovation and relocation. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

(b) Income taxes

The Group is subject to income taxes in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

5 Segment information

The Group was operated into two main business segments during the year:

(a) Provision of beauty and healthcare services; and

(b) Sales of beauty products and equipment.

Turnover consists of sales from provision of beauty and healthcare services and sales of beauty products and equipment.

No analysis of the Group's segment information by geographical segments is presented as the Group solely provides beauty and healthcare services in Hong Kong and over 90% of its sales were made to customers located in Hong Kong. The inter-segment sales were transacted on a cost basis.

	Group	
	2006	2005
	HK$'000	HK$'000
Turnover:		
Sales upon provision of beauty and healthcare services	**427,918**	377,803
Sales upon expiring of prepaid beauty packages	**50,157**	58,394
Total gross sales for beauty and healthcare services	**478,075**	436,197
Total gross sales for sale of beauty products and equipment	**30,365**	28,492
Inter-segment sales	**(10,175)**	(7,757)
	20,190	20,735
Total turnover	**498,265**	456,932
Segment results:		
Provision of beauty and healthcare services	**184,874**	152,933
Sales of beauty products and equipment	**4,871**	12,951
	189,745	165,884
Other gains - net	**20,241**	9,019
Unallocated costs	**(66,509)**	(48,160)
Profit before taxation	**143,477**	126,743
Taxation	**(20,966)**	(21,572)
Profit for the year	**122,511**	105,171

5 Segment information *(Continued)*

	Group	
	2006	2005
	HK$'000	HK$'000
Segment assets:		
Provision of beauty and healthcare services	**586,792**	103,189
Sales of beauty products and equipment	**6,946**	9,404
	593,738	112,593
Unallocated assets	**255,719**	640,597
Total assets	**849,457**	753,190
Segment liabilities:		
Provision of beauty and healthcare services	**(554,342)**	(568,164)
Sales of beauty products and equipment	**(1,605)**	(1,262)
	(555,947)	(569,426)
Unallocated liabilities	**(8,238)**	(65,029)
Total liabilities	**(564,185)**	(634,455)
Other information:		
Capital expenditure		
Provision of beauty and healthcare services	**46,298**	21,850
Unallocated	**2,281**	—
	48,579	21,850
Depreciation and amortisation		
Provision of beauty and healthcare services	**21,458**	20,242
Sales of beauty products and equipment	**115**	149
Unallocated	**441**	178
	22,014	20,569

6 Property, plant and equipment

	Group						
	Leasehold 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
Year ended 31 March 2005							
Opening net book amount	13,751	26,694	6,183	434	2,577	414	50,053
Additions	–	11,613	7,058	207	2,047	925	21,850
Disposal/write-off	(2,323)	(2,834)	–	–	(400)	–	(5,557)
Depreciation	(319)	(12,953)	(4,977)	(223)	(1,264)	(531)	(20,267)
Reclassification	–	–	(72)	–	–	72	–
Closing net book amount	11,109	22,520	8,192	418	2,960	880	46,079
As at 31 March 2005							
Cost	11,815	74,200	49,924	5,123	8,854	3,440	153,356
Accumulated depreciation	(706)	(51,680)	(41,732)	(4,705)	(5,894)	(2,560)	(107,277)
Net book amount	11,109	22,520	8,192	418	2,960	880	46,079
Year ended 31 March 2006							
Opening net book amount	11,109	22,520	8,192	418	2,960	880	46,079
Additions	2,680	13,211	10,720	347	3,100	1,163	31,221
Disposal/write-off	–	–	(72)	–	–	–	(72)
Depreciation	(313)	(13,629)	(3,864)	(133)	(2,891)	(624)	(21,454)
Closing net book amount	13,476	22,102	14,976	632	3,169	1,419	55,774
As at 31 March 2006							
Cost	14,495	87,411	60,516	5,470	11,954	4,603	184,449
Accumulated depreciation	(1,019)	(65,309)	(45,540)	(4,838)	(8,785)	(3,184)	(128,675)
Net book amount	13,476	22,102	14,976	632	3,169	1,419	55,774

For the purpose of the listing of the Company's shares on the Stock Exchange, the properties of the Group were revalued as at 31 October 2005 by Sallmanns (Far East) Limited, an independent firm of valuers. The valuation gave rise to a revaluation surplus of approximately HK$15,600,000 from the carrying amount of the buildings at that date. However, the revaluation surplus was not incorporated in the consolidated financial statements for the year ended 31 March 2006 as the Group accounts for its property interests at cost. Had such revaluation surplus been recognised in the consolidated financial statements for the year ended 31 March 2006, additional depreciation charges of approximately HK$436,000 per annum would be incurred.

7 Leasehold land prepayments

The movement of the Group's interests in leasehold land prepayments representing prepaid operating lease payments and their net book value are analysed as follows:

	Group	
		As restated
	2006	2005
	HK$'000	HK$'000
At beginning of the year	**10,527**	12,966
Additions	**17,358**	—
Amortisation	**(560)**	(302)
Disposal	**—**	(2,137)
At end of the year	**27,325**	10,527

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

	2006	2005
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of between 10 to 50 years	**27,325**	10,527

8 Investments in subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**101,076**	—
Amounts due from subsidiaries	**7,039**	—
	108,115	—

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

8 Investments in subsidiaries *(Continued)*

The following is a list of the principal subsidiaries as at 31 March 2006:

Name	Place of incorporation and kind of legal entity	Principal activities and places of operation	Issued and fully paid up share capital	Interest held Direct	Interest held Indirect
Modern (Human Resource) Limited	Hong Kong, limited liability company	Provision of management services, Hong Kong	10,000 ordinary shares of HK$1	—	100%
Beauty Expert (Logistics) Limited	Hong Kong, limited liability company	Sales of cosmetics products and leasing of fixed assets, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MWH Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MAD Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MKL Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MFW Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MIR Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MQQ Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%

8 Investments in subsidiaries *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and places of operation	Issued and fully paid up share capital	Interest held Direct	Indirect
MCB Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MOH Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MEH Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
Topluck International Holdings Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	1,000 ordinary shares of HK$1	—	100%
Step Well Investment Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	1,000 ordinary shares of HK$1	—	100%
Modern Advertising (HK) Limited	Hong Kong, limited liability company	Provision of advertising services, Hong Kong	10,000 ordinary shares of HK$1	—	100%
Beauty Expert (International) Limited	Hong Kong, limited liability company	Provision of management services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
MHWC Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%

8 Investments in subsidiaries *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and places of operation	Issued and fully paid up share capital	Interest held Direct	Interest held Indirect
MCP Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	1,000 ordinary shares of HK$1	—	100%
MPA Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	1,000 ordinary shares of HK$1	—	100%
BE Universal Limited	Hong Kong, limited liability company	Sales of cosmetics products, Hong Kong	1,000 ordinary share of HK$1	—	100%
Lucky Days Investments Inc.	British Virgin Islands, limited liability company	Provision of franchise services in relation to the provision of beautification and gymnastic services, Hong Kong	1 ordinary share of US$1	—	100%
Well Faith International Enterprise Limited	Hong Kong, limited liability company	Property investment for rental income, Hong Kong	1,000 ordinary shares of HK$1	—	100%
Beauty Expert (B.V.I.) Limited	British Virgin Islands, limited liability company	Provision of franchise and trademark services in relation to the provision of beautification and gymnastic services, Hong Kong	1,000 ordinary shares of US$1	—	100%
Modern Beauty Salon (International) Limited	British Virgin Islands, limited liability company	Provision of sub-franchising services in relation to the provision of beautification and gymnastic services, Hong Kong	450,000 preferred shares of US$0.1 and 50,000 ordinary shares of US$0.1	—	100%
Modern Beauty Management Company Limited	Hong Kong, limited liability company	Investment holding, Hong Kong	1,000 ordinary shares of HK$1	—	100%

8 Investments in subsidiaries *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and places of operation	Issued and fully paid up share capital	Interest held Direct	Interest held Indirect
Modern Beauty Saloon Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	10,000 ordinary shares of HK$1	—	100%
Modern Beauty Salon (HK) Limited	Hong Kong, limited liability company	Provision of beauty parlour services and sales of cosmetics products, Hong Kong	2 ordinary shares of HK$1	—	100%
Modern Beauty Holdings Limited	British Virgin Islands, limited liability company	Investment holding, Hong Kong	1,000 ordinary shares of US$1	—	100%
Joy East Limited	Hong Kong, limited liability company	Property investment, Hong Kong	1,000 ordinary shares of HK$1	—	100%
Wise World Limited	Hong Kong, limited liability company	Property investment, Hong Kong	1,000 ordinary shares of HK$1	—	100%
East Union Industries Limited	Hong Kong, limited liability company	Property investment for rental income, Hong Kong	10,000 ordinary shares of HK$1	—	100%
Koladen Enterprises Inc.	British Virgin Islands, limited liability company	Investment holding, Hong Kong	100 ordinary shares of US$1	100%	—

9 Financial assets at fair value through profit or loss/other investments

	Group	
	2006	2005
	HK$'000	HK$'000
At beginning of the year	**57,785**	29,553
Additions	**63,376**	27,300
Fair value gains - unrealised	**414**	932
Disposal	**(53,596)**	—
At end of the year	**67,979**	57,785

9 Financial assets at fair value through profit or loss/other investments *(Continued)*

	Group	
	2006	2005
	HK$'000	HK$'000
Equity securities listed in Hong Kong at market value	**–**	6,533
Unlisted funds investing in equity and debt securities	**67,979**	51,252
	67,979	57,785

As at 31 March 2005, unlisted funds of aggregate carrying amounts of HK$8,592,000 have been pledged to a bank to secure credit facilities granted to a subsidiary. The pledge was released in November 2005.

10 Inventories

As at 31 March 2005 and 2006, inventories represented finished goods held on hand.

11 Trade and other receivables, deposits and prepayments

	Group	
	2006	2005
	HK$'000	HK$'000
Non current assets		
Other deposits	**9,707**	6,450
Current assets		
Trade receivables	**28,140**	29,849
Deposits and prepayments	**26,945**	18,321
Other receivables	**1,465**	1,912
Amounts due from related companies (Note 29(a)(i))	**–**	4,852
Amount due from a director (Note 29(a)(ii))	**–**	203,395
	56,550	258,329
	66,257	264,779

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**28,140**	29,849

12 Cash and cash equivalents

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

	Group		Company
	2006	2005	**2006**
	HK$'000	HK$'000	**HK$'000**
Cash at bank and cash in hand	**27,187**	62,781	**–**
Short-term bank deposits	**538,468**	251,541	**155,212**
	565,655	314,322	**155,212**

The effective interest rates on the cash and cash equivalents were ranging of 0.01% to 3.09% and ranging of 0.05% to 3.85% for years ended 31 March 2005 and 2006 respectively.

13 Share capital

(a) Authorised and issued capital

	Number of shares	Approximate amount HK$'000
Authorised:		
Upon incorporation on 19 August 2005 (Note (i))	3,900,000	390
Increase in authorised share capital (Note (ii))	9,996,100,000	999,610
As at 31 March 2006	10,000,000,000	1,000,000
Issued and fully paid:		
Upon incorporation on 19 August 2005 (Note (i))	1	—
Allotted and issued on 8 September 2005 (Note (i))	74	—
Allotted and issued pursuant to the Reorganisation (Note (iii))	539,999,925	54,000
Issue of shares for Global Offering (Note (iv))	180,000,000	18,000
As at 31 March 2006	720,000,000	72,000

Notes:

(i) The Company was incorporated on 19 August 2005 with an authorised share capital of HK$390,000 divided into 3,900,000 shares of HK$0.10 each. On 8 September 2005, Mapcal Limited, as initial subscriber, transferred the one issued and outstanding share to Silver Compass Holdings Corporation ("SCHC"). On 8 September 2005, 50 and 24 fully-paid shares of the Company were allotted and issued to SCHC and Silver Hendon Enterprises Corporation ("SHEC") respectively.

(ii) On 20 January 2006, the Company increased its authorised share capital from HK$390,000 to HK$1,000,000,000 by creating an additional 9,996,100,000 shares of HK$0.10 each. These shares rank pari passu in all respects with the existing shares.

(iii) In preparation of the Company's listing of its shares on the Main Board of the Stock Exchange, the Company acquired the entire issued share capital of Koladen Enterprises Inc. ("KEI") in consideration of allotment and issue of 367,199,949 and 172,799,976 shares to SCHC and SHEC respectively credited as fully paid on 24 January 2006.

(iv) On 9 February 2006, the Company completed a global offering of 180,000,000 shares with a par value of HK$0.1 each at a price of HK$1 per share in cash flow an aggregate consideration of HK$180 million. The shares commenced trading on the Stock Exchange on 9 February 2006. All these shares rank pari passu in all respects with the then existing shares. The listing proceeds of the aforementioned shares, net of direct listing expenses amounted to approximately HK$161,582,000. The resulting share premium amounted to approximately HK$143,582,000.

13 Share capital *(Continued)*

(a) Authorised and issued capital *(Continued)*

The share capital presented in the consolidated balance sheet as at 31 March 2006 represented the share capital of the Company, arising from the transactions as described in Note (iii) above, which is deemed to have been in issue throughout the accounting periods presented in these financial statements in accordance with the Reorganisation as set out in Note 1, as if the current group structure had been in existence since 1 April 2004.

(b) Pre-IPO Share Option Scheme

	2006	
	Average exercise price in HK$ per share	**Number of options**
At 1 April	**—**	**—**
Granted	**0.6**	**3,600,000**
At 31 March		**3,600,000**

Pursuant to the written resolutions passed by the shareholders of the Company on 20 January 2006, one share option scheme, namely, Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") were approved and adopted by the Company.

During the year, the Company granted options under the Pre-IPO Scheme to certain Directors and employees of the Group, which entitle them to subscribe for a total of 3,600,000 shares at HK$0.6 per option, are exercisable within a period of five years within which there is a local vesting period of one year. Commencing from the six months after the Listing Date and twelve months after the Listing Date, the relevant grantee may exercise up to 50% and 100% respectively of the Shares comprised in his or her option.

13 Share capital *(Continued)*

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

Details of the options granted under the Pre-IPO Scheme outstanding as at 31 March 2006 are as follows:

	Date of grant	Exercise price	Number of shares subject to the options
Directors	24 January 2006	HK$0.6	2,500,000
Senior management	24 January 2006	HK$0.6	480,000
Other employees	24 January 2006	HK$0.6	620,000
			3,600,000

No share options were exercised, cancelled or lapsed during the year.

The fair value of options granted during the year determined using the Black-Scholes valuation model was HK$1,568,000. The significant inputs into the model were share price of HK$1 as at the grant date, exercise price shown above, standard deviation of expected share price returns of 50%, expected life of options of five years, expected dividend paid-out rate of 12.24% and annual risk-free interest rate of 4.31% and 4.38% for exercise date beginning on 9 August 2006 and 9 February 2007, respectively. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis.

14 Share premium and reserves

	Group				
	Share premium	Merger reserve	Retained earnings	Share-based compensation reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 April 2004 (Note a)	—	(53,982)	22,946	—	(31,036)
Profit for the year	—	—	105,171	—	105,171
Dividends paid (Note 24)	—	—	(9,400)	—	(9,400)
As at 31 March,2005 and 1 April 2005	—	(53,982)	118,717	—	64,735
Profit for the year	—	—	122,511	—	122,511
Dividends paid (Note 24)	—	—	(118,000)	—	(118,000)
Pre-IPO Share Option Scheme (Note b)	—	—	—	444	444
Issue of shares	162,000	—	—	—	162,000
Share issuance expenses	(18,418)	—	—	—	(18,418)
As at 31 March 2006	143,582	(53,982)	123,228	444	213,272

Notes:

(a) Pursuant to the Reorganisation effected on 24 January 2006 (Note 1), the Company acquired the entire issued share capital of Koladen Enterprises Inc. ("KEI") in consideration of allotment and issue of 539,999,925 shares to SCHC and SHEC. Under the merger basis of accounting (Note 1), 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.

(b) Share-based compensation reserve represented a corresponding entry of employee share option expenses charged to the consolidated income statement.

14 Share premium and reserves *(Continued)*

	Company			
	Share premium HK$'000	**Retained earnings** HK$'000	**Contributed surplus (Note)** HK$'000	**Total** HK$'000
As at 19 August 2005 (date of incorporation)	—	—	—	—
Profit for the year	—	669	—	669
Issue of shares	162,000	—	—	162,000
Share issuance expenses	(18,418)	—	—	(18,418)
Effect of reorganisation	—	—	47,076	47,076
As at 31 March 2006	143,582	669	47,076	191,327

Note: Contributed surplus of the Company represented the difference between the costs of investments in subsidiaries acquired pursuant to the Reorganisation over the fair value of the subsidiaries in exchange.

15 Deferred taxation

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amount are as follows:

	Group	
	2006 **HK$'000**	2005 HK$'000
Deferred tax assets to be recovered after more than 12 months	**2,854**	1,582
Deferred tax liabilities to be settled after more than 12 months	**(50)**	(103)
	2,804	1,479

15 Deferred taxation *(Continued)*

The gross movement on the deferred taxation is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Beginning of the year	**1,479**	560
Recognised in the consolidated income statement (Note 21)	**1,325**	919
End of the year	**2,804**	1,479

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$ 249,716 (2005: HK$302,000) in respect of losses amounting to HK$ 1,426,948 (2005: HK$1,725,000) that can be carried forward against future taxable income.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets:

	Group					
	Accelerated depreciation allowances		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
As at 1 April	**1,357**	1,716	**225**	–	**1,582**	1,716
Credited/(charged) to consolidated income statement	**1,411**	(359)	**(139)**	225	**1,272**	(134)
As at 31 March	**2,768**	1,357	**86**	225	**2,854**	1,582

15 Deferred taxation *(Continued)*

Deferred tax liabilities:

	Group Accelerated depreciation allowance	
	2006	2005
	HK$'000	HK$'000
As at 1 April	**(103)**	(1,156)
Credited to consolidated income statement	**53**	1,053
As at 31 March	**(50)**	(103)

16 Trade and other payables, deposits received and accrued expenses

	Group	
	2006	2005
	HK$'000	HK$'000
Trade payables	**351**	192
Other payables, deposits received and accrued expenses	**29,184**	19,302
Amounts due to related companies (Note 29(a)(iii))	**–**	42,673
	29,535	62,167

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

	2006	2005
	HK$'000	HK$'000
Within 90 days	**351**	192

17 Deferred revenue

An ageing analysis of deferred revenue as at the balance sheets dates is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 1 year	**279,747**	306,144
More than 1 year but within 2 years	**159,070**	146,016
More than 2 years but within 3 years	**87,595**	97,772
	526,412	549,932

Movement of deferred revenue

	Group	
	2006	2005
	HK$'000	HK$'000
As at 1 April	**549,932**	520,205
Receipts during the year	**454,555**	465,924
Sales upon provision of beauty and healthcare services	**(427,918)**	(377,803)
Sales upon expiring of prepaid beauty packages	**(50,157)**	(58,394)
As at 31 March	**526,412**	549,932

18 Other gains - net

	2006	2005
	HK$'000	HK$'000
Financial assets at fair value through profit or loss/other investments		
– fair value losses (realised and unrealised)	**(615)**	(71)
– fair value gains (realised and unrealised)	**5,477**	1,003
Interest income	**13,589**	6,631
Dividend income	**255**	180
Investment income	**18,706**	7,743
Gross rental income	**490**	724
Other income	**1,045**	552
	20,241	9,019

19 Profit before taxation

The following items have been included in arriving at profit from operations:

	2006 HK$'000	2005 HK$'000
Crediting:		
Gain on disposal of leasehold land prepayments	–	2,620
Net exchange gains	1	40
Charging:		
Auditors' remuneration		
– current year	1,380	850
– under/(over) provision in previous year	147	(50)
Loss on disposal of property, plant and equipment	–	2,488

20 Staff costs (including directors' remuneration)

	2006 HK$'000	2005 HK$'000
Wages and salaries	176,579	163,456
Pension costs - defined contribution plan (Note a)	7,216	6,458
Other staff welfare	2,518	2,129
Share-based compensation (Note 13)	444	–
	186,757	172,043

Notes:

(a) Pensions - defined contribution plans

The Group did not forfeit any contributions (2005: Nil) during the year.

Contributions total at HK$1,285,000 (2005: HK$846,000) were payable to the fund at the year-end.

20 Staff costs (including directors' remuneration) *(Continued)*

(b) Directors' and senior management's remuneration

The remuneration of every Director for the year ended 31 March 2006 is set out below:

Name of Director	Fee	Salary	Housing allowance (Note (i))	Share-based compensation	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Tsang Yue, Joyce	–	7,458	3,600	74	12	11,144
Lee Soo Ghee (ii)	–	4,660	–	80	11	4,751
Yuen Siu Ping	–	1,054	–	86	12	1,152
Hung Fan Kwan	–	798	–	37	12	847
Yip Kai Wing	–	425	–	31	12	468
Yu How Yuen (iii)	–	20	–	–	1	21
Cheng Kai Tai, Allen (iii)	–	20	–	–	1	21
Wong See Hong (iii)	–	20	–	–	1	21
	–	14,455	3,600	308	62	18,425

The remuneration of every Director for the year ended 31 March 2005 is set out below:

Name of Director	Fee	Salary	Housing allowance	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Tsang Yue, Joyce	–	14,299	3,600	12	17,911
Yuen Siu Ping	–	1,532	–	12	1,544
Hung Fan Kwan	–	625	–	13	638
Yip Kai Wing	–	351	–	12	363
	–	16,807	3,600	49	20,456

Notes:

(i) The lease agreement for the executive director's quarter was terminated on 31 March 2006.

(ii) Mr. Lee Soo Ghee was appointed as executive director of the Group on 26 September 2005

(iii) Mr. Yu How Yuen, Mr. Cheng Kai Tai, Allen and Mr. Wong See Hong were appointed as independent non-executive directors on 9 February 2006

20 Staff costs (including directors' remuneration) *(Continued)*

(c) Five highest paid individuals

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

	Number of individuals	
	2006	2005
Directors	**4**	3
Employees	**1**	2
	5	5

The five individuals whose remuneration were the highest in the Group for the year include four (2005: three) Directors whose remuneration are reflected in the analysis presented above. The remuneration payable to the remaining one (2005: two) individuals during the year is as follows:

	2006	2005
	HK$'000	HK$'000
Basic salaries and allowances	**1,247**	1,178
Retirement benefit cost	**12**	24
	1,259	1,202

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

	2006	2005
	HK$'000	HK$'000
Emolument Bands		
HK$nil - HK$1,000,000	**–**	2
HK$1,000,001 - HK$1,500,000	**1**	–
	1	2

During the year, no emoluments have been paid to the Directors of the Company, or the five highest individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

21 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the consolidated income statement represents:

	2006	2005
	HK$'000	HK$'000
Current income taxation:		
– Hong Kong profits tax	**23,178**	21,953
– (Over)/under provision in prior years	**(887)**	538
	22,291	22,491
Deferred taxation (Note 15)	**(1,325)**	(919)
	20,966	21,572

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

	2006	2005
	HK$'000	HK$'000
Profit before tax	**143,477**	126,743
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**25,108**	22,180
Income not subject to taxation	**(4,051)**	(1,356)
Expenses not deductible for taxation purposes	**657**	464
(Over)/under provision in prior years	**(887)**	538
Utilisation of previously unrecognised tax losses	**–**	(290)
Tax effect of unrecognised tax losses	**139**	36
Tax charge	**20,966**	21,572

22 Earnings per share

The calculation of basic earnings per share is based on the Group's net profit attributable to shareholders for the year ended 31 March 2006 of HK$ 122,511,000 (2005: HK$ 105,171,000) and the weighted average of 565,150,685 (2005: 540,000,000) shares in issue during the year. The weighted average number of shares for 2005 was based on the assumption that the Reorganisation has been completed on 1 April 2004.

The calculation of diluted earnings per share for the year ended 31 March 2006 is based on the Group's net profit attributable to shareholders for the year of HK$122,511,000 and the weighted average of 566,517,087 shares. The weighted average number of shares used in the calculation comprises the 565,150,685 shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 1,366,402 shares assumed to have been issued at no consideration on the deemed exercise of options granted under the Company's share option scheme during the year.

No diluted earnings per share has been presented for the year ended 31 March 2005 as the Company has no dilutive potential shares.

23 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$669,262.

24 Dividends

	2006	2005
	HK$'000	HK$'000
Dividends paid to the then shareholders (Note a)	**118,000**	9,400
Proposed final dividend of HK$0.138 per ordinary share (Note b)	**99,360**	—
	217,360	9,400

Notes:

(a) Dividends of HK$118,000,000 were declared and paid by the Company's subsidiaries to their then shareholders during the year ended 31 March 2006.

(b) A dividend in respect of 2006 of HK$0.138 per share, amounting to a total dividend of HK$99,360,000 is to be proposed at the annual general meeting on 15 August 2006. These financial statements do not reflect this dividend payable.

25 Non-cash transaction to consolidated cash flow statement

During the year ended 31 March 2005 and 2006, dividend payable of HK$9,400,000 and HK$118,000,000 respectively were settled by offsetting balance due from a shareholder, Mr. Tsang Yue, Joyce.

26 Commitments

(a) Commitments under operating leases

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

	Group	
	2006	2005
	HK$'000	HK$'000
Not later than one year	**37,769**	48,369
Later than one year and not later than five years	**46,299**	38,895
Later than five years	**1,711**	—
	85,779	87,264

(b) Other commitments

Other commitments at the balance sheet date are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Capital expenditure contracted for but not yet incurred in the financial statements in respect of acquisition of property, plant and equipment	**2,955**	730
Commitment for the purchase of equipment under a distribution agreement entered into before year end	**–**	759

27 Contingent liabilities

During the course of business, the Group has received complaints and claims in respect of various matters concerned with the provision of beauty services, including complaints filed with the Hong Kong Consumer Council, certain small claims filed at Hong Kong Small Claims Tribunal, and a claim filed at each of Hong Kong District Court and Hong Kong High Court in respect of breach of contract, content of advertisement and personal injuries in relation to the services provided. The directors are of the opinion that such complaints and claim have no material financial impact to the Group.

28 Pledged bank deposits

As at 31 March 2005 and 2006, the Group pledged bank deposits of approximately HK$51,520,000 and HK$52,286,000 respectively in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company.

29 Related party balances and transactions

(a) Related party balances

(i) Amounts due from related companies

Name	Balance as at 31 March 2006 HK$'000	Balance as at 31 March 2005 HK$'000	Maximum outstanding balance for the year ended 31 March 2006 HK$'000	Maximum outstanding balance for the year ended 31 March 2005 HK$'000
All Link International Limited	**–**	–	**–**	3,104
Beauty Expert Product Limited	**–**	–	**549**	546
Chain Tech International Limited	**–**	–	**–**	164
Ho Ching Him International Limited	**–**	–	**34**	34
Modern Beauty Salon (South Bridge) Pte Limited	**–**	4,800	**11,436**	4,800
Money Chain Limited	**–**	–	**–**	6
New Consultants Limited	**–**	–	**4**	200,549
United Industries Limited	**–**	–	**–**	1,039
Andy & Ho Design and Advertising Limited	**–**	–	**–**	10
Senex Investments Limited	**–**	–	**–**	83
Forever Keys Limited	**–**	12	**12**	12
Redwood Hot Limited	**–**	11	**19**	11
Go2Win Limited	**–**	13	**13**	13
Luck Elegant Industrial Limited	**–**	8	**8**	8
Union World International Limited	**–**	8	**8**	8
	–	4,852		

The amounts due from related companies are unsecured, interest free and repayable on demand. Ms. Tsang Yue, Joyce, a director of the Company, has 100% equity interest in all of the above related companies. The balance has been fully settled on 1 November 2005.

29 Related party balances and transactions *(Continued)*

(a) Related party balances *(Continued)*

(ii) Amount due from a director

	Group	
	2006	2005
	HK$'000	HK$'000
Name		
Ms. Tsang Yue, Joyce	**–**	203,395
Maximum outstanding balance during the year	**203,395**	203,395

Amount due from a director is unsecured, interest free and repayable on demand. The balance has been fully settled on 1 November 2005.

(iii) Amounts due to related companies

	Group	
	2006	2005
	HK$'000	HK$'000
All Link International Limited	**–**	4,376
Money Chain Limited	**–**	8,181
Chain Tech International Limited	**–**	2,383
United Industries Limited	**–**	5,962
Andy & Ho Design and Advertising Limited	**–**	1,575
Senex Investments Limited	**–**	7,809
Modern Wish Inc.	**–**	12,387
	–	42,673

Amounts due to related companies, which are wholly owned by Ms. Tsang Yue, Joyce, are unsecured, interest free and repayable on demand. The balance has been fully settled on 1 November 2005.

29 Related party balances and transactions *(Continued)*

(b) Related party transactions

In addition to the transactions and balances with the directors and related companies as detailed elsewhere in the report, the Group had the following material transactions with related parties during the year, which were entered into by the Group in the ordinary course of its business.

The following transactions were carried out with related parties:

	Note	**2006 HK$'000**	2005 HK$'000
Rental income received from related companies:			
Chain Tech International Limited	(i)	**24**	96
All Link International Limited	(i)	**24**	97
Senex Investments Limited	(i)	**23**	94
United Industries Limited	(i)	**24**	95
		95	382
Rental paid to related companies:			
All Link International Limited	(ii)	**3,600**	3,600
United Industries Limited	(iii)	**465**	1,860
Senex Investments Limited	(iv)	**144**	518
Chain Tech International Limited	(v)	**480**	720
		4,689	6,698
Sales of products and equipment to a related company:			
Euro King Limited	(vi)	**2,119**	—
Modern Beauty Salon (South Bridge) Pte Limited	(vi)	**8,119**	12,376
License fee received from a related company			
Modern Beauty Salon (South Bridge) Pte Limited	(vii)	**28**	—
Key management compensation:			
Salaries		**14,395**	16,807
Housing allowances		**3,600**	3,600
Employer's contribution to pension scheme		**59**	49
Share based compensation		**308**	—
		18,362	20,456

29 Related party balances and transactions *(Continued)*

(b) Related party transactions *(Continued)*

Notes:

(i) The property is located at 6/F, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong which is held by Well Faith International Enterprise Limited ("WF"), a company controlled by Ms. Tsang Yue, Joyce. Tenancy Agreements ("T/A") have been entered between WF and Chain Tech International Limited ("Chain Tech"), All Link International Limited ("All Link"), Senex Investments Limited ("Senex"), United Industries Limited ("United Industries") in November 2003 for the use of signage space in the abovementioned property. All companies are under the control of Ms. Tsang Yue, Joyce, a director of the Company for the use of signage space in the abovementioned property.

(ii) The property is located at 47 Stanley Village Road, Stanley, Hong Kong, which is owned by All Link, a company under the control of Ms. Tsang Yue, Joyce. The lease agreement of this property was terminated on 31 March 2006.

(iii) The property is located at House 5, Le Palais, 8 Pak Pat Shan Road, Tai Tam, Hong Kong, which is owned by United Industries, a company under the control of Ms. Tsang Yue, Joyce.

(iv) The property is located at House No.66, Palm Drive, The Redhill Peninsula, No. 18 Pak Pat Shan Road, Tai Tam, Hong Kong, which is owned by Senex, a company under the control of Ms. Tsang Yue, Joyce.

(v) The property is located at 1/F., 46 Carnarvon Road, Tsimshatsui, Kowloon, which is owned by Chain Tech, a company under the control of Ms. Tsang Yue, Joyce. It is the service centre of the Group.

(vi) The amounts represented the amounts of material/products/equipment being sold to the Group's related companies incorporated and located in Singapore which are controlled by Ms. Tsang Yue, Joyce.

(vii) The amounts represented the license fee being received from the Group's related companies incorporated and located in Singapore which are controlled by Ms. Tsang Yue, Joyce.

(c) Director guarantee

As at 31 March 2005, a Director pledged bank deposits of HK$35,000,000 in favour of certain banks to secure banking facilities granted to certain subsidiaries of the Company. The pledge was released during the year.