MODERN BEAUTY SALON HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 919)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2014

FINANCIAL HIGHLIGHTS

- The Group's turnover reached approximately HK$868.8 million, representing an increase of 22.7% compared with approximately HK$708.1 million in FY2013.
- Gross receipts from sales of prepaid beauty packages increased from approximately HK$764.2 million in FY2013 to approximately HK$772.2 million in FY2014.
- The Group recorded an operating profit of HK$80.2 million during the year under review (FY2013: operating loss of HK$45.0 million).
- The Board recommended the payment of a final dividend of HK2.0 cents per ordinary share for the year under review.

OPERATIONAL HIGHLIGHTS

- The Group operated a total of 43 service centres in the Mainland China and Hong Kong with a total weighted average gross floor area of approximately 295,200 square feet.
- In Southeast Asian region, the Group had 14 and 3 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 25,600 square feet and approximately 8,900 square feet respectively.
- Customer number in Hong Kong and Singapore reached approximately 350,900 and 100,700 respectively.

The Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2014 ("FY2014" or the "year under review"), with comparative figures for the year ended 31 March 2013 ("FY2013") as follows. The annual results for the year ended 31 March 2014 have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MARCH 2014

	Note	**2014** *HK$'000*	2013 *HK$'000*
Turnover	*5*	**868,806**	708,122
Other income	*6*	**2,919**	1,784
Cost of inventories sold		**(27,647)**	(29,033)
Advertising costs		**(11,028)**	(12,331)
Building management fees		**(18,101)**	(19,128)
Bank charges		**(37,343)**	(35,776)
Employee benefit expenses	*7(b)*	**(413,100)**	(397,471)
Depreciation		**(43,932)**	(30,977)
Occupancy costs		**(160,538)**	(156,104)
Other operating expenses		**(79,843)**	(74,110)
Profit/(loss) from operations		**80,193**	(45,024)
Interest income		**2,066**	1,961
Finance costs	*7(a)*	**(476)**	(620)
Fair value changes on investment properties		**–**	(14,300)
Profit/(loss) before taxation	*7*	**81,783**	(57,983)
Income tax (expense)/credit	*8*	**(26,942)**	4,549
Profit/(loss) for the year		**54,841**	(53,434)
Attributable to:			
Equity shareholders of the Company		**54,844**	(53,431)
Non-controlling interests		**(3)**	(3)
Profit/(loss) for the year		**54,841**	(53,434)
Earnings/(loss) per share (HK cents)	*10*		
Basic		**6.28**	(6.11)
Diluted		**5.75**	(6.11)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2014

	Note	**2014** **HK$'000**	2013 HK$'000
Profit/(loss) for the year		**54,841**	(53,434)
Other comprehensive income for the year (after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**1,208**	(769)
Other comprehensive income for the year		**1,208**	(769)
Total comprehensive income for the year		**56,049**	(54,203)
Attributable to:			
Equity shareholders of the Company		**56,052**	(54,200)
Non-controlling interests		**(3)**	(3)
Total comprehensive income for the year		**56,049**	(54,203)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2014

	Note	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment		**148,986**	133,724
Deposits	*11*	**20,053**	22,264
Deferred tax assets		**14,473**	24,191
		183,512	180,179
Current assets			
Inventories		**23,402**	19,293
Trade and other receivables, deposits and prepayments	*11*	**238,818**	245,390
Tax recoverable		**16,124**	17,992
Pledged bank deposits		**52,170**	47,162
Cash and bank balances		**440,850**	481,249
		771,364	811,086
Current liabilities			
Trade and other payables, deposits received and accrued expenses	*12*	**91,955**	83,973
Deferred revenue	*13*	**688,451**	747,614
Finance lease payable		**–**	18
Convertible note		**3,680**	3,680
Tax payable		**21,306**	7,221
		805,392	842,506
Net current liabilities		**(34,028)**	(31,420)
Total assets less current liabilities		**149,484**	148,759

	Note	2014 HK$'000	2013 HK$'000
Non-current liabilities			
Convertible note		**1,948**	3,316
Deferred tax liabilities		**2,231**	–
		4,179	3,316
NET ASSETS		**145,305**	145,443
CAPITAL AND RESERVES			
Share capital		**87,400**	87,400
Reserves		**57,846**	57,981
Total equity attributable equity shareholders of the Company		**145,246**	145,381
Non-controlling interests		**59**	62
TOTAL EQUITY		**145,305**	145,443

1. GENERAL INFORMATION

Modern Beauty Salon Holdings Limited (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 provision of beauty and wellness services and the sales of skincare and wellness products. 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. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 March 2014 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 March 2014 but are extracted from those financial statements.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements.

The accounting policies used in the preparation of the financial statements are consistent with those used in the 2012/2013 annual financial statements except the changes set out in note 3.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

HKFRS 10, *Consolidated financial statements*

HKFRS 12, *Disclosure of interests in other entities*

HKFRS 13, *Fair value measurement*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in the financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in the financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 April 2013.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in the Group's financial statements.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in the Group's financial statements. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

4. 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.

Segment profits or losses do not include other income, interest income, finance costs, fair value changes on investment properties, unallocated costs, which comprise corporate administrative expenses, and income tax (expense)/credit. Segment assets do not include properties held for corporate uses, deferred tax assets and tax recoverable. Segment liabilities do not include tax payable, convertible note, deferred tax liabilities, amounts due to related companies and amount due to the ultimate controlling party.

(a) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2014 and 2013 is set out below.

	Beauty and wellness services *HK$'000*	**Skincare and wellness products** *HK$'000*	**Total** *HK$'000*
Year ended 31 March 2014			
Revenue from external customers	**828,096**	**40,710**	**868,806**
Reportable segment profit	**107,760**	**13,937**	**121,697**
Other segment information:			
Additions to property, plant and equipment	**58,097**	**2,048**	**60,145**
Depreciation	**38,761**	**5,171**	**43,932**
As at 31 March 2014			
Reportable segment assets	**887,754**	**11,843**	**899,597**
Reportable segment liabilities	**766,426**	**13,891**	**780,317**
Year ended 31 March 2013			
Revenue from external customers	667,341	40,781	708,122
Reportable segment (loss)/profit	(21,145)	11,960	(9,185)
Other segment information:			
Additions to property, plant and equipment	82,467	6,170	88,637
Depreciation	26,500	4,477	30,977
As at 31 March 2013			
Reportable segment assets	917,969	6,431	924,400
Reportable segment liabilities	818,596	12,920	831,516

Note: Certain comparative figures have been adjusted to conform to current year's presentation.

(b) Reconciliations of reportable segment profit or loss, assets and liabilities

	2014	2013
	HK$'000	*HK$'000*
Profit or loss		
Reportable segment profit/(loss)	**121,697**	(9,185)
Other income	**2,919**	1,784
Interest income	**2,066**	1,961
Finance costs	**(476)**	(620)
Fair value changes on investment properties	**–**	(14,300)
Unallocated costs	**(44,423)**	(37,623)
Income tax (expense)/credit	**(26,942)**	4,549
Consolidated profit/(loss) for the year	**54,841**	(53,434)
Assets		
Reportable segment assets	**899,597**	924,400
Properties held for corporate uses	**24,682**	24,682
Deferred tax assets	**14,473**	24,191
Tax recoverable	**16,124**	17,992
Consolidated total assets	**954,876**	991,265
Liabilities		
Reportable segment liabilities	**780,317**	831,516
Tax payable	**21,306**	7,221
Convertible note	**5,628**	6,996
Deferred tax liabilities	**2,231**	–
Amounts due to related companies	**87**	87
Amount due to the ultimate controlling party	**2**	2
Consolidated total liabilities	**809,571**	845,822
Other information:		
Total additions to property, plant and equipment of reportable segments and consolidated additions	**60,145**	88,637
Total depreciation of reportable segments and consolidated depreciation	**43,932**	30,977

(c) In presenting the geographical information below, (i) revenue is based on the locations of the customers; and (ii) non-current assets are based on the physical location of the assets. Non-current assets do not include deferred tax assets and deposits.

	Revenue		Non-current assets	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**648,859**	527,925	**119,927**	109,420
Mainland China	**34,124**	38,966	**9,721**	5,392
Singapore	**174,728**	127,710	**14,830**	17,994
Malaysia	**10,336**	13,521	**1,012**	918
Taiwan	**759**	–	**3,496**	–
	868,806	708,122	**148,986**	133,724

5. TURNOVER

The principal activities of the Group are the provision of beauty and wellness services and sales of skincare and wellness products.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2014	2013
	HK$'000	*HK$'000*
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**828,096**	667,341
Sales of skincare and wellness products	**40,710**	40,781
	868,806	708,122

6. OTHER INCOME

	2014	2013
	HK$'000	*HK$'000*
Commission income	**847**	463
Government grants	**880**	75
Net gain on disposals of property, plant and equipment	**–**	108
Magazine subscription income	**7**	51
Foreign exchange gains, net	**–**	215
Others	**1,185**	872
	2,919	1,784

7. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

(a) Finance costs

	2014	2013
	HK$'000	*HK$'000*
Finance lease charges	**4**	2
Interest on convertible note wholly repayable within five years	**472**	618
	476	620

(b) Employee benefit expenses

	2014	2013
	HK$'000	*HK$'000*
Wages and salaries	**386,789**	371,504
Contributions to defined contribution retirement plans	**24,532**	23,158
Other staff welfare	**1,326**	2,328
Share-based payments	**453**	481
	413,100	397,471

(c) Other items

	2014	2013
	HK$'000	*HK$'000*
Auditor's remuneration		
– Current	**2,905**	2,166
– Over-provision in prior year	**–**	(166)
	2,905	2,000
Direct operating expenses of investment properties that did not generate rental income	**–**	33
Foreign exchange loss, net	**442**	–
Operating lease charges for land and buildings (included contingent rental of HK$Nil (2013: HK$2,000))	**160,538**	156,104
Net loss on disposals of property, plant and equipment	**629**	–

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2014	2013
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**46**	54
(Over)/under-provision in respect of prior years	**(17)**	3
	29	57
Current tax – Overseas		
Provision for the year	**15,088**	7,191
Under/(over)-provision in respect of prior years	**29**	(1,257)
	15,117	5,934
Deferred tax		
Origination and reversal of temporary differences	**11,796**	(10,540)
	26,942	(4,549)

Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

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.

9. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year

	2014	2013
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK2.5 cents per ordinary share (2013: HK3.0 cents per ordinary share)	**21,850**	26,219
Special dividend declared and paid of Nil (2013: HK1.1 cents per ordinary share)	**–**	9,614
Special dividend declared of Nil (2013: HK4.0 cents per ordinary share)	**–**	34,960
Final dividend proposed after the end of the reporting period of HK2.0 cents per ordinary share (2013: Nil)	**17,480**	–
	39,330	70,793

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

10. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$54,844,000 (2013: loss of HK$53,431,000) and 873,996,190 (2013: 873,996,190) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$55,316,000 (2013: loss of HK$53,431,000) and the weighted average number of ordinary shares of 961,615,238 (2013: 873,996,190) ordinary shares, calculated as follows:

(i) Profit/(loss) attributable to ordinary equity shareholders of the Company (diluted)

	2014	2013
	HK$'000	*HK$'000*
Profit/(loss) attributable to ordinary equity shareholders	**54,844**	(53,431)
After tax effect of effective interest on the liability component of convertible note	**472**	–
Profit/(loss) attributable to ordinary equity shareholders (diluted)	**55,316**	(53,431)

(ii) Weighted average number of ordinary shares (diluted)

	2014	2013
Weighted average number of ordinary shares at 31 March	**873,996,190**	873,996,190
Effect of conversion of convertible note	**87,619,048**	–
Weighted average number of ordinary shares (diluted) at 31 March	**961,615,238**	873,996,190

The Company's outstanding convertible note as at 31 March 2013 did not give rise to any dilution effect to the loss per share.

The Company's share options and unlisted warrants as at 31 March 2014 and 2013 do not give rise to any dilution effect to the earnings/(loss) per share.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2014	2013
	HK$'000	*HK$'000*
Non-current asset		
Rental and other deposits	**20,053**	22,264
Current assets		
Trade receivables	**55,790**	60,462
Trade deposits retained by banks/credit card companies *(note)*	**134,587**	134,738
Rental and other deposits, prepayments and other receivables	**48,167**	49,954
Amounts due from related companies	**274**	236
	238,818	245,390
	258,871	267,654

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 credit cards, in accordance with the merchant agreements entered into between the Group and the banks/credit card companies.

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date, is as follows:

	2014	2013
	HK$'000	*HK$'000*
0 – 30 days	**23,711**	26,953
31 – 60 days	**9,366**	9,226
61 – 90 days	**9,834**	10,396
91 – 180 days	**9,480**	12,197
Over 180 days	**3,399**	1,690
	55,790	60,462

The Group's turnover comprises mainly cash and credit card sales. Trade receivables are due within 7 – 180 days (2013: 7 – 180 days), from the date of billing.

(b) Impairment of trade receivables

At 31 March 2014 and 2013, none of the Group's trade receivables were individually determined to be impaired.

(c) **Trade receivables that are not impaired**

At 31 March 2014, trade receivables of approximately HK$2,351,000 that were past due but not impaired (2013: HK$3,082,000) relate to banks/credit card companies that have good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The ageing analysis of these trade receivables, based on due date, is as follows:

	2014	2013
	HK$'000	*HK$'000*
0 – 30 days	**1,503**	2,009
31 – 60 days	**–**	76
61 – 90 days	**–**	116
91 – 150 days	**5**	15
Over 150 days	**843**	866
	2,351	3,082

12. TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	2014	2013
	HK$'000	*HK$'000*
Trade payables	**2,471**	911
Other payables, deposits received and accrued expenses	**89,395**	82,973
Amount due to the ultimate controlling party	**2**	2
Amounts due to related companies	**87**	87
	91,955	83,973

All of the trade and other payables, deposit received and accrued expenses are expected to be settled or recognised as income within one year or are repayable on demand.

An ageing analysis of trade payables, based on the invoice date, is as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 90 days	**2,461**	886
Over 90 days	**10**	25
	2,471	911

13. DEFERRED REVENUE

(a) An ageing analysis, based on the invoice date, of the deferred revenue is as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 1 year	**655,843**	665,884
More than 1 year but within 2 years	**4,578**	42,424
More than 2 years but within 3 years	**28,030**	39,306
	688,451	747,614

(b) Movement of deferred revenue:

	2014	2013
	HK$'000	*HK$'000*
At beginning of year	**747,614**	648,623
Gross receipts from sales of prepaid beauty packages	**772,206**	764,210
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(828,096)**	(667,341)
Exchange differences	**(3,273)**	2,122
At end of year	**688,451**	747,614

OVERVIEW

During the year under review, with the recovery of the industry damaged by the series of beauty treatment incidents in the 4th quarter of 2012, turnover of the Group reached approximately HK$868.8 million, representing an increase of 22.7% compared with approximately HK$708.1 million for the year ended 31 March 2013 ("FY2013" or the "same period last year"). The receipts from sales of prepaid beauty packages during the year under review was HK$772.2 million, an increase of 1.0% over the same period last year. With the inflation and business expansion of the Group, the employees benefit expenses and occupancy costs increased by 3.9% and 2.8% to HK$413.1 million and HK$160.5 million respectively as compared with the same period last year. The Group recorded an operating profit of HK$80.2 million during the year under review (FY2013: operating loss of HK$45.0 million).

BUSINESS REVIEW

Hong Kong

The beauty industry has been reshuffled amidst the series of notorious beauty treatment incidents during in the 4th quarter in 2012. A number of beauty chain stores run by our competitors have been closed due to the adverse incidents. As one of the leading beauty and wellness services brands in Hong Kong, we managed to take this chance and expanded our market share. With the consistent application of our strategy in customer segmentation, we placed emphasis on identifying customers that are keen on consuming beauty and wellness services so as to furbish their allure and esteem. Turnover for the year increased by 22.9%. According to the accounting policies, deferred revenue is recognised when service treatments are delivered to customers or upon expiry of prepaid beauty packages. Hence, unrecognised deferred revenue for the year will be fully recognised in revenue in the upcoming financial years according to actual situations. Revenue from services rendered and receipts from prepaid beauty packages for the year under review were HK$614.8 million and HK$617.3 million respectively (FY2013: HK$494.7 million and HK$603.1 million).

Revenue from sales of skincare and wellness products was HK$34.0 million in FY2014 (FY2013: HK$33.3 million).

The Group is dedicated to provide safe and highly effective beauty and facial and wellness services and continue to attract new clienteles. Our customers in Hong Kong amounted up to a total of approximately 350,900 during the year under review, representing an increase of 9.0% as compared to approximately 321,900 in the same period last year.

During the year under review, the Group entered into a master lease agreement ("Master Lease Agreement") with a company wholly owned by a family trust set up by our Chairperson. This will shelter the Group from any potential loss due to relocation of its existing beauty and wellness centres in the event that the respective lease agreements were not renewed upon their expiry and save the administrative cost of the Group. In addition, the Master Lease Agreement will allow the Group to lease new premises based on the market price in which the Group considers suitable for further expansion of its network of beauty and wellness centres.

Mainland China

We conduct our Mainland China operations through three wholly foreign owned enterprises established in Beijing, Shanghai and Guangzhou in the People's Republic of China (the "PRC"). These three wholly foreign owned enterprises operate a total of 10 service centres (FY2013: 9 service centres) at the three cities referred, with a total weighted average gross floor area of approximately 33,500 square feet (FY2013: 38,400 square feet). We have a good standing within the Mainland China market with good quality services provided by the Group's professional team. We will continue to develop the Mainland China market progressively but with a prudent pace, by fine-tuning and optimising the business model for Mainland China operations. To surmount the increasing rental cost and salaries in the Mainland China, we tend to open medium sized beauty centres in middle class residential areas, instead of opening big sized beauty centres in commercial areas. The Group's turnover in the Mainland China decreased to HK$34.1 million (FY2013: HK$39.0 million) and receipts from sales of prepaid beauty packages decreased by 11.4% to HK$30.4 million as compared to HK$34.3 million for the same period last year. The business recorded a loss of HK$3.5 million during the year under review as compared with a profit of HK$1.7 million for the same period last year.

Singapore and Malaysia

In FY2014, the beauty, facial and slimming services businesses in Singapore and Malaysia continued to show encouraging trend. We will continue to leverage our quality services to build up local customer's confidence in the Group and a sound brand name. During the year under review, the Group decreased its number of service centres in Singapore by 1 to a total of 14, while the number of service centres in Malaysia remained unchanged at 3.

During the year under review, the turnover from operations in Singapore and Malaysia was HK$185.1 million, as compared with HK$141.2 million for the same period last year. Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages and receipts from sales of prepaid beauty packages in Singapore and Malaysia amounted to HK$180.3 million and HK$123.0 million respectively, as compared with HK$135.0 million and HK$126.8 million for the same period last year.

Taiwan

During the first half of FY2014, the Group set up two service centres in Taiwan. We will continue to maintain a prudent approach in developing the local business.

FINANCIAL REVIEW

Turnover

Set out below is a breakdown on the turnover of the Group by service lines and product sales during FY2014 (with comparative figures for FY2013):

	For the year ended 31 March				
	2014		2013		
Sales mix	***HK$'000***	***Percentage of turnover***	*HK$'000*	*Percentage of turnover*	**Change**
Beauty and facial	**636,930**	**73.3%**	520,953	73.6%	**+22.3%**
Slimming	**139,340**	**16.0%**	103,899	14.6%	**+34.1%**
Spa and massage	**51,649**	**6.0%**	41,640	5.9%	**+24.0%**
Fitness	**177**	**0.0%**	849	0.1%	**–79.2%**
Beauty and wellness services	**828,096**	**95.3%**	667,341	94.2%	**+24.1%**
Sales of skincare and wellness products	**40,710**	**4.7%**	40,781	5.8%	**–0.2%**
Total	**868,806**	**100.0%**	708,122	100.0%	**+22.7%**

During the year under review, the Group devoted additional resources to marketing and put emphasis on providing safe and premium beauty and wellness services in order to regain customers' confidence affected by the series of beauty treatment incidents in Hong Kong in 2012. The strategy was proved to be successful as revealed by the strong gain of turnover contributed by the beauty and wellness services and the strong gain of number of customers in FY2014.

The sales of skincare and wellness products in FY2014 was relatively stable as compared with FY2013. The Group is dedicated to put more resources to the product business in the future, and will leverage the strong brand name of the Group to develop the distribution of the skincare and wellness products.

During the year under review, the Group's turnover from beauty and wellness services increased strongly by about 24.1% from approximately HK$667.3 million in FY2013 to approximately HK$828.1 million in the year under review.

The Group reported that the sales of new prepaid beauty packages of the Group amounted to HK$772.2 million, representing a slight increase of 1.0% compared with HK$764.2 million for the same period last year, while cash and cash equivalents in hand were maintained at a healthy level. Deferred revenue will be recognised and credited to turnover in the upcoming financial years according to actual situations.

Set out below is an analysis on the deferred revenue:

	For the year ended 31 March									
	2014					2013				
Movement of deferred revenue	**Hong Kong**	**Mainland China**	**Taiwan**	**Singapore and Malaysia**	**Total**	Hong Kong	Mainland China	Taiwan	Singapore and Malaysia	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year	**535,364**	**14,071**	**–**	**198,179**	**747,614**	426,917	17,497	–	204,209	648,623
Exchange differences	**–**	**295**	**13**	**(3,581)**	**(3,273)**	–	(112)	–	2,234	2,122
Gross receipts from sales of prepaid beauty packages	**617,304**	**30,359**	**1,518**	**123,025**	**772,206**	603,108	34,346	–	126,756	764,210
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty package	**(614,832)**	**(32,216)**	**(759)**	**(180,289)**	**(828,096)**	(494,661)	(37,660)	–	(135,020)	(667,341)
At end of the year	**537,836**	**12,509**	**772**	**137,334**	**688,451**	535,364	14,071	–	198,179	747.614

Employee benefit expenses

Employee benefit expenses (including staff's salaries and bonuses as well as directors' remunerations) represented the largest component of the Group's operating costs. During the year under review, employee benefit expenses increased by about 3.9% from HK$397.5 million in FY2013 to approximately HK$413.1 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. Employee benefit expenses accounted for 47.5% of our turnover in FY2014, as compared to 56.1% for FY2013.

The Group's remuneration policies are in line with the prevailing market practices and are determined based on the individual performance and experience. 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. 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.

Occupancy costs

As of 31 March 2014, the Group operated a total of 43 service centres in Mainland China and Hong Kong with a total weighted average gross floor area of approximately 295,200 square feet, representing an decrease of 4.5% as compared to 309,100 square feet in FY2013. The number of product sales points of the Group was 22 during the year under review (FY2013: 22). In respect of the Southeast Asian region, as of 31 March 2014, the Group had 14 and 3 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 25,600 square feet and approximately 8,900 square feet respectively (FY2013: approximately 26,000 square feet and approximately 8,900 square feet respectively). The Group's occupancy costs in FY2014 were approximately HK$160.5 million (FY2013: HK$156.1 million), accounting for approximately 18.5% of our turnover (FY2013: 22.0%).

During the year under review, the Group entered into the Master Lease Agreement (which contains a number of leases) with a company wholly owned by a family trust set up by the Group's Chairperson. This will shelter the Group from any potential loss due to relocation of its existing beauty and wellness centres in the event that the relevant existing lease agreements are not being renewed upon their expiry and save the administrative costs of the Group. In addition, the Master Lease Agreement will also provide the Group with the opportunities to lease new premises based on market price in which the Group considers suitable for the continuous expansion of its network of beauty and wellness centres.

Depreciation

Depreciation for the year under review increased 41.6% to HK$43.9 million as compared with HK$31.0 million for FY2013. The increase is mainly due to the depreciation incurred in the renovations, beauty equipment and fixtures of the new big sized services centres opened from the beginning to the middle of the calendar year of 2013.

Other operating expenses

Other operating expenses include bank charges, advertising costs, utilities and building management fees. Bank charges recorded changes in line with sales of new prepaid beauty packages, which slightly increased by 4.4% to HK$37.3 million. Advertising costs decreased to HK$11.0 million from HK$12.3 million for the same period last year. Advertising cost as a percentage of turnover decreased from 1.7% in FY2013 to 1.3% in FY2014. The decrease reflected the Group's ability to enjoy cost advantage in advertising cost as it could spread such costs across an enlarged service centre network that covers Hong Kong, the PRC, Singapore, Malaysia and Taiwan. Advertising cost is allocated in effective way to raise brand awareness and capture a greater market share.

Profit/(loss) for the year

Profit from operations for the year under review increased to approximately HK$80.2 million as compared to a loss of approximately HK$45.0 million for FY2013. Furthermore, profit for the year under review attributable to equity shareholders of the Company also turned from a loss of approximately HK$53.4 million in FY2013 to a profit of approximately HK$54.8 million. Operating margin improved from a loss of 6.4% in FY2013 to a operating profit margin of 9.2% in FY2014. The increase in operating profit was mainly attributable to the growth in the Group's turnover, whilst the increase in operating profit margin was primarily due to the successful implementation of various cost controlling measures and the Group's focus in delivering high-end products and services of quality being accepted by customers. Basic earnings per share was HK6.28 cents as compared to loss per share of HK6.11 cents for the same period last year.

Dividend per share

The Board recommended payment of a final dividend of HK2.0 cents per share subject to approval of the shareholders at the forthcoming Annual General Meeting. Together with the interim dividends of HK2.5 cents per share paid during the year under review, the total dividend paid for the year ended 31 March 2014 will be HK4.5 cents per share.

Liquidity, financial resources and capital structure

The Group generally finances its 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$440.9 million (FY2013: HK$481.2 million) with no bank borrowings. Our cash is primarily used as working capital and to finance our normal operating expenses, as well as to pay for the purchase of skincare and wellness products, materials and consumable used in the provision of beauty and wellness services. During the period under review, except for the fund required for operation, the majority of the Group's cash was held under fixed and savings deposits as in line with the Group's prudent treasury policies.

Capital expenditure

The total capital expenditure of the Group during the year under review was approximately HK$60.1 million, as compared to HK$88.6 million for the same period last year. The amount was mainly used for the additions of land and buildings, leasehold improvements, motor vehicles and equipment and machinery in connection with the expansion and integration of its service network in Hong Kong, the Mainland China and Southeast Asian regions.

Contingent liabilities and capital commitment

The Board considered that there was no material contingent liabilities as at 31 March 2014. The Group had capital commitment of HK$5.2 million as at 31 March 2014 (31 March 2013: HK$13.4 million), mainly for the acquisition of plant and equipment.

Charges on assets

As of 31 March 2014, the Group had pledged bank deposits of HK$52.2 million (31 March 2013: HK$47.2 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign exchange risk exposures

The Group's transactions were mainly denominated in Hong Kong Dollars. However, the exchange rates of Hong Kong Dollars against Renminbi, Singapore Dollars and Ringgit Malaysia also affected the operating costs as the Group expanded its business to the Mainland China and Southeast Asian regions. The management will closely monitor the risk exposures faced by the Group, and will take necessary actions to minimise potential risks and strike a balance between our exposure and return so as to properly hedge such exposures.

Human resources and training

The Group had a workforce of 1,826 staff as of 31 March 2014 (31 March 2013: 1,937 staff), including 1,297 front-line service centre staff in Hong Kong, 120 in the Mainland China and 197 in Southeast Asian regions (Singapore, Malaysia and Taiwan). Back office staff totaled 144 in Hong Kong, 21 in the Mainland China and 47 in Southeast Asian regions. 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 staff. The Remuneration Committee also reviews the remuneration policies and packages of executive directors and the senior management. Share options and discretionary bonus are also granted to eligible employees based on the Group's results and individual performance of the employees. The Group has adopted the share option scheme since 20 January 2006. As at 31 March 2014, 6,300,000 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. During the year under review, total employee benefit expenses including directors' emoluments amounted to HK$413.1 million, representing a 3.9% increase as compared to HK$397.5 million in FY2013. To enhance the service quality and core skills of our staff members, the Group regularly organises training programs designed by the Group's senior management for its staff. In addition, the seminars also facilitate the interaction and communication between the Group's management and the general staff.

OUTLOOK

The backlash of the society against the series of beauty treatment incidents within the industry accentuated the importance of safety of services and products. The Group always champions to provide beauty services and products with high quality and safety standards in its beauty and wellness centres, and imposes strict quality control on the skincare and wellness products used and sold by us. With the persistence to crusade for these causes, we have ridden out the difficulties of the industry and quickly revived our business during the year under review.

We will continue to explore and introduce safe and advanced beauty and slimming products and equipment, so as to suit to the market needs. The Group will also continue to provide pertinent training to its service team to ensure service quality, and to ensure we abounds with well trained and experienced front-line service team to serve our customers and build a good foundation for the Group's future development and continue to be one of the bellwethers of the industry for which we have been being widely acclaimed.

In recent years, rental cost of retail shops skyrocketed and has eclipsed all other categories of cost in our industry. At the same time, it is ubiquitous that many retailers cannot renew their lease upon expiry with the landlords due to the booming retail economic conditions. In February 2014, we have entered into the Master Lease Agreement, which contains premises for present usage by the Group with 10 service centres in Hong Kong and Singapore, 3 office and warehouses in Hong Kong and 3 staff quarters in Hong Kong. It also contains premises for intended usage by the Group with 3 service centres in Hong Kong and 1 staff quarter in Singapore. The Master Lease Agreement safeguards the Group from any potential loss due to relocation of its existing beauty and wellness centres in the event that relevant leases cannot be renewed upon expiry.

Having more than 500,000 customers is one of our core values and assets. By exploring the big data analytics, we combined, contrasted and analysed to find patterns and other useful information that is most important to the business and future business decisions, and to improve customer retention, help with product development, serve the best to the customers and finally gain a competitive advantage on the market. Wedding photography is one of the new businesses that we explore during the year under review to suit the customer needs with only little marginal cost to incur. Together with our variety of services provided to the customers such as skincare, slimming, hairstyling, cosmetics, manicures, pedicures, electrology, medical beauty, we will continue to epitomise the holistic one-stop beauty service provider to our customers.

In the coming future, the Group will further beef up its product business by expanding the sales network, increasing brands and products representation, or acquiring new beauty product brands in order to achieve our business diversification goal. It is envisaged that the sales of beauty products will be one of a major force behind the Group's profit growth in the future.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

The Company's auditor has informed the Company that they will issue a qualified opinion in the Auditor's report to the shareholders of the Company. The basis of the Auditor's qualified opinion is extracted below:

"Basis for Qualified Opinion

Because we were appointed as the auditors of the Company during 2014, it was impracticable to perform sufficient audit procedures to satisfy ourselves on the Group's consolidated statement of financial position as at 31 March 2012 which affects the determination of the results of the Group's operations for the year ended 31 March 2013. Our opinion is therefore modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures of the matters described in the Basis for Qualified Opinion paragraph, 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 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year under review, the Company did not redeem, and neither the Company nor any of its subsidiaries purchased or sold, any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting ("AGM") of the Company is scheduled to be held on Friday, 29 August 2014. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 27 August 2014 to Friday, 29 August 2014, both days inclusive, during which period no transfer of Share will be effected. In order to be eligible to attend and vote at the AGM, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 26 August 2014.

The proposed final dividend is subject to the passing of an ordinary resolution by the Shareholders at the AGM. The record date for entitlement to the proposed final dividend is Wednesday, 10 September 2014. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 5 September 2014 to Wednesday, 10 September 2014, 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 Thursday, 4 September 2014. The payment of final dividend will be made on Friday, 3 October 2014.

CORPORATE GOVERNANCE PRACTICE

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 Company has adopted the code provisions ("Code Provisions") set out in the Corporate Governance Code (taking effect from 1 April 2012) (the "Code") as set out in Appendix 14 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

During the year under review, the Company met the Code Provisions in the Code, except for the deviation from Code Provision A.2.1 as discussed in the section headed "Chairperson and Chief Executive Officer" below and from Code Provision A.6.7 as set out in the section headed "Non-Compliance with Code Provision A.6.7" below.

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

During the year under review, Ms. Tsang Yue, Joyce ("Ms. Tsang") was both the Chairperson and CEO of the Company. Code provision A.2.1 of the Code stipulates that the role of chairperson and chief executive 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.

NON-COMPLIANCE WITH CODE PROVISION A.6.7

Code Provision A.6.7 provides that Independent Non-executive Directors and other Non-executive Directors of the Company should attend general meetings and develop a balanced understanding of the views of the shareholders.

Mr. Hong Po Kui, Martin, an Independent Non-executive Director of the Company, was absent from the Annual General Meeting of the Company held on 30 August 2013 due to personal reason.

Ms. Liu Mei Ling, Rhoda, an Independent Non-executive Director of the Company, was absent from the Extraordinary General Meeting of the Company held on 31 March 2014 due to personal reason.

Mr. Hong Po Kui, Martin, an Independent Non-executive Director of the Company, was absent from the Extraordinary General Meeting of the Company held on 31 March 2014 due to personal reason.

SCOPE OF WORK OF KPMG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2014 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this preliminary announcement.

AUDIT COMMITTEE

The composition of the Audit Committee is as follows:

Independent Non-executive Director
Ms. Liu Mei Ling, Rhoda *(Chairperson)*
Mr. Wong Man Hin, Raymond
Mr. Hong Po Kui, Martin

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2014 prior to their approval by the Board.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website of the Company at www.modernbeautysalon.com under "Investor Relations – Statutory Announcements". The Annual Report and the Notice of Annual General Meeting will be despatched to the shareholders on or about 30 July 2014 and will be available at the Stock Exchange's and the Company's websites at the same time.

On behalf of the Board,
TSANG YUE, JOYCE
Chairperson & Chief Executive Officer

Hong Kong, 30 June 2014

As at the date of this announcement, the Board consists of Three Executive Directors, Ms Tsang Yue, Joyce, Mr Yip Kai Wing and Ms Yeung See Man and Four Independent Non-executive Directors, Ms Liu Mei Ling, Rhoda, Mr Wong Man Hin, Raymond, Mr Hong Po Kui, Martin and Mr Lam Tak Leung.