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

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 2009

FINANCIAL HIGHLIGHTS

- Turnover dropped by 15.8% to approximately HK$661.8 million.
- Profit for the year dropped by 92.4% to approximately HK$17.2 million.
- Net profit margin was 2.6%.
- Basic earnings per share dropped by 92.4% to HK2.38 cents.

OPERATIONAL HIGHLIGHTS

- Opened 14 new service centres in Hong Kong and Mainland China. Service network expanded to 46 centres including 36 service centres in Hong Kong and 10 service centres in Mainland China.
- Weighted average total gross floor area increased by 22.5% to approximately 392,000 square feet.
- Customer base grew by 19.0% with approximately 42,000 new customers.
- As at 31 March 2009, the total customer base reached 263,000 approximately.

The Board of Directors (the "Board") of Modern Beauty Salon Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2009, with comparative figures for the previous year as follows. The annual results for the year ended 31 March 2009 have been reviewed by the audit committee of the Company.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009

	Note	**2009**	2008
		HK$'000	*HK$'000*
Turnover	2	**661,795**	786,002
Other gains - net	3	**11,392**	2,581
Cost of inventories sold		**(20,258)**	(21,618)
Advertising costs		**(28,177)**	(23,781)
Building management fee		**(21,907)**	(16,840)
Bank charges		**(29,914)**	(28,364)
Employee benefit expense		**(332,923)**	(274,385)
Depreciation and amortisation		**(40,736)**	(33,003)
Occupancy costs		**(111,465)**	(79,957)
Other operating expenses		**(69,499)**	(60,469)
Operating profit	4	**18,308**	250,166
Interest income		**3,907**	23,667
Profit before income tax		**22,215**	273,833
Income tax expense	5	**(4,990)**	(47,060)
Profit for the year		**17,225**	226,773
Earnings per share (HK cents)			
– Basic	6	**2.38**	31.34
– Diluted	6	**2.37**	30.95
Dividends	7	**31,111**	136,022

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2009

	Note	**2009**	2008
		HK$'000	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**127,897**	109,456
Leasehold land prepayments		**115,884**	118,088
Trade and other receivables, deposits and prepayments	8	**21,578**	25,710
Deferred income tax assets		**9,701**	6,477
		275,060	259,731
Current assets			
Inventories		**9,403**	12,583
Trade and other receivables, deposits and prepayments	8	**138,180**	72,514
Current income tax assets		**39,866**	9,462
Pledged bank deposits		**9,412**	9,264
Cash and cash equivalents		**137,826**	349,811
		334,687	453,634
Total assets		**609,747**	713,365
EQUITY			
Capital and reserves			
Share capital		**72,352**	72,352
Share premium and reserves		**226,560**	302,327
Total equity		**298,912**	374,679

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2009 (Continued)

	Note	**2009**	2008
		HK$'000	*HK$'000*
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**1,055**	209
Current liabilities			
Trade and other payables, deposits received and accrued expenses	9	**53,556**	47,489
Deferred revenue		**254,414**	265,028
Current income tax liabilities		**1,810**	25,960
		309,780	338,477
Total liabilities		**310,835**	338,686
Total equity and liabilities		**609,747**	713,365
Net current assets		**24,907**	115,157
Total assets less current liabilities		**299,967**	374,888

Note:

1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). The consolidated financial statements have been prepared under the historical cost convention.

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.

(a) Interpretation effective for the year ended 31 March 2009 and relevant to the Group's operations

- HK(IFRIC) - Int 11, 'HKFRS 2 - Group and treasury share transactions'

(b) Amendment and interpretations effective for the year ended 31 March 2009 but not relevant to the Group's operations

The following amendment and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are currently not relevant to the Group's operations:

- HKAS 39, 'Financial instruments: Recognition and measurement'
- HK(IFRIC) - Int 12, 'Service concession arrangements'
- HK(IFRIC) - Int 14, 'HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective for annual period starting from 1 January 2009)
- HKAS 23 (Revised), 'Borrowing costs' (effective for annual period starting from 1 January 2009)
- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009)
- HKFRS 2 (Amendment), 'Share-based payment' (effective for annual period starting from 1 January 2009)

- HKFRS 3 (Revised), ‘Business combinations’ (effective for annual period starting from 1 July 2009)

- HKFRS 8, ‘Operating segments’ (effective for annual period starting from 1 January 2009)

- HK(IFRIC) - Int 13, ‘Customer loyalty programmes’ (effective for annual period starting from 1 July 2008)

- HK(IFRIC) - Int 16 , ‘Hedges of a net investment in a foreign operation’ (effective for annual period starting from 1 October 2008)

- HKICPA’s improvements to HKFRS published in October 2008

  — HKAS 1 (Amendment), ‘Presentation of financial statements’ (effective for annual period starting from 1 January 2009)

  — HKAS 23 (Amendment), ‘Borrowing costs’ (effective for annual period starting from 1 January 2009)

  — HKAS 36 (Amendment), ‘Impairment of assets’ (effective for annual period starting from 1 January 2009)

  — There are a number of minor amendments to HKFRS 7, ‘Financial instruments: Disclosures’, HKAS 8, ‘Accounting policies, changes in accounting estimates and errors’, HKAS 10, ‘Events after the balance sheet date’, HKAS 18, ‘Revenue’ and HKAS 34, ‘Interim financial reporting’ which are not addressed above. These amendments are unlikely to have an impact on the Group’s financial statements and have therefore not been analysed in detail.

(d) Amendments and interpretations to existing standards which are not yet effective and not relevant for the Group’s operations

The following amendments and interpretations to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2009 or later periods but are currently not relevant for the Group’s operations:

- HKAS 19 (Amendment), ‘Employee benefits’ (effective for annual period starting from 1 January 2009)

- HKAS 28 (Amendment), ‘Investments in associates’ (and consequential amendments to HKAS 32, ‘Financial Instruments: Presentation’ and HKFRS 7, ‘Financial instruments: Disclosures’) (effective for annual period starting from 1 January 2009)

- HKAS 32 (Amendment), ‘Financial instruments: Presentation’, and HKAS 1 (Amendment), ‘Presentation of financial statements’ ‘Puttable financial instruments and obligations arising on liquidation’ (effective for annual period starting from 1 January 2009)

- HKAS 38 (Amendment), 'Intangible assets' (effective for annual period starting from 1 January 2009)

- HKAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' - 'Eligible hedged items' (effective for annual period starting from 1 July 2009)

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective for annual period starting from 1 July 2009)

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective for annual period starting from 1 July 2009)

- HK(IFRIC) - Int 15, 'Agreements for construction of real estates' (effective for annual period starting from 1 January 2009)

- HK(IFRIC) - Int 17 - 'Distributions of non-cash assets to owners' (effective for annual period starting from 1 July 2009)

- HK(IFRIC) - Int 18 'Transfers of assets from customers' (effective for transfers on or after 1 July 2009)

- HKICPA's improvements to HKFRS published in October 2008

  — HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective for annual period starting from 1 January 2009)

  — HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective for annual period starting from 1 January 2009)

  — HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective for annual period starting from 1 January 2009)

  — HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective for annual period starting from 1 January 2009)

  — HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective for annual period starting from 1 January 2009)

  — HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective for annual period starting from 1 January 2009)

  — HKAS 38 (Amendment), 'Intangible assets' (effective for annual period starting from 1 January 2009)

  — HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective for annual period starting from 1 January 2009)

— HKAS 41 (Amendment), 'Agriculture' (effective for annual period starting from 1 January 2009)

— Amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.

2 SEGMENT INFORMATION

The Group operated in two main business segments during the year:

(a) Sales of beauty and wellness services; and

(b) Sales of skincare products.

Turnover consists of sales of beauty and wellness services and sales of skincare products.

	Group	
	2009	2008
	HK$'000	*HK$'000*
Turnover:		
Sales of beauty and wellness services	**621,686**	733,296
Sales recognised upon expiry of prepaid beauty packages	**20,107**	31,466
Total gross sales of beauty and wellness services	**641,793**	764,762
Total gross sales for sale of skincare products	**36,056**	38,429
	677,849	803,191
Inter-segment sales	**(16,054)**	(17,189)
Total	**661,795**	786,002
Segment results:		
Sales of beauty and wellness services	**27,203**	263,626
Sales of skincare products	**13,363**	13,321
	40,566	276,947
Other gains - net	**11,392**	2,581
Unallocated costs	**(33,650)**	(29,362)
Operating profit	**18,308**	250,166
Interest income	**3,907**	23,667
Profit before income tax	**22,215**	273,833
Income tax expense	**(4,990)**	(47,060)
Profit for the year	**17,225**	226,773

	Group	
	2009	2008
	HK$'000	*HK$'000*
Segment assets:		
Beauty and wellness services	**351,950**	487,089
Skincare products	**7,505**	8,681
	359,455	495,770
Unallocated assets	**250,292**	217,595
Total assets	**609,747**	713,365
Segment liabilities:		
Beauty and wellness services	**(304,403)**	(307,205)
Skincare products	**(3,567)**	(5,312)
	(307,970)	(312,517)
Unallocated liabilities	**(2,865)**	(26,169)
Total liabilities	**(310,835)**	(338,686)
Other information:		
Capital expenditure		
Beauty and wellness services	**57,788**	136,693
Unallocated capital expenditure	**1,477**	21,003
	59,265	157,696
Depreciation and amortisation		
Beauty and wellness services	**39,532**	32,315
Skincare products	**274**	115
Unallocated depreciation and amortisation	**930**	573
	40,736	33,003

(b) Secondary reporting format - geographical segments

The Group operated in two geographical segments during the year:

(i) Hong Kong; and

(ii) Mainland China

Turnover consists of sales of beauty and wellness services and sales of skincare products.

	Group	
	2009	2008
	HK$'000	*HK$'000*
Turnover:		
Hong Kong	**626,046**	772,117
Mainland China	**35,749**	13,885
Total	**661,795**	786,002
Segment assets:		
Hong Kong	**573,493**	672,895
Mainland China	**36,254**	40,470
Total assets	**609,747**	713,365
Other information:		
Capital expenditure		
Hong Kong	**56,841**	150,962
Mainland China	**2,424**	6,734
	59,265	157,696

3 OTHER GAINS - NET

	Group	
	2009	2008
	HK$'000	*HK$'000*
Gross rental income	**731**	731
Gain on disposal of property, plant and equipment	**—**	1,252
Food income	**955**	—
Commission income	**2,652**	—
Magazine subscription income	**6,385**	—
Other income	**669**	598
	11,392	2,581

4 OPERATING PROFIT

Operating profit is stated after charging the following:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Auditors' remuneration	**2,763**	2,474
Cost of inventories sold	**20,258**	21,618
Employee benefit expense	**332,923**	274,385
Depreciation and amortisation	**40,736**	33,003
Occupancy costs	**111,465**	79,957
Advertising costs	**28,177**	23,781
Building management fee	**21,907**	16,840
Bank charges	**29,914**	28,364
Loss on disposal of property, plant and equipment	**1,561**	—
Other expenses	**65,175**	57,995

5 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 17.5%) on the estimated assessable profit for the year.

The amount of income tax expense charged to the consolidated income statement represents:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Current income tax		
– Current year	**8,430**	49,090
– (Over)/under provision in prior years	**(1,065)**	1,322
	7,365	50,412
Deferred income tax	**(2,375)**	(3,352)
	4,990	47,060

6 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit for the year ended 31 March 2009 of HK$17,225,000 (2008: HK$226,773,000) and the weighted average of 723,520,000 (2008: 723,498,142) shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding of 725,884,559 (2008: 732,715,761) shares to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

7 DIVIDENDS

	Group	
	2009	2008
	HK$'000	*HK$'000*
2009 interim dividend of HK4.3 cents per ordinary share (2008: HK10.0 cents per ordinary share)	**31,111**	72,352
2008 final dividend of HK8.8 cents per ordinary share	**—**	63,670
	31,111	136,022

8 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group	
	2009	2008
	HK$'000	*HK$'000*
Non-current assets		
Rental and other deposits	**21,578**	25,710
Current assets		
Trade receivables	**91,197**	48,075
Rental and other deposits, prepayments and other receivables	**46,467**	23,989
Amounts due from related companies	**516**	450
	138,180	72,514
	159,758	98,224

The fair values of trade and other receivables, deposits and prepayments approximate their carrying amounts.

The Group's turnover comprises mainly cash and credit card sales. Trade receivables are due within 150 days (2008: 60 days) from the date of billings. An ageing analysis of trade receivables as at the balance sheets dates is as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
0 - 30 days	**29,155**	39,767
31 - 60 days	**29,249**	8,296
61 - 90 days	**27,255**	12
91 - 150 days	**5,538**	—
	91,197	48,075

As of 31 March 2009 and 2008, there are no trade receivables past due.

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Hong Kong dollar	**91,136**	47,814
Renminbi	**61**	261
	91,197	48,075

The trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

9 TRADE AND OTHER PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

	Group	
	2009	2008
	HK$'000	*HK$'000*
Trade payables	**918**	1,651
Other payables, deposits received and accrued expenses	**52,638**	45,838
	53,556	47,489

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**918**	1,651

The fair values of trade and other payables, deposits received and accrued expenses approximate their carrying amounts.

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Hong Kong dollar	**904**	1,627
Renminbi	**14**	24
	918	1,651

BUSINESS REVIEW

Fitness Service Grows from Strength to Strength

During the year under review, the Group has significantly strengthened its Fitness Service by launching a new exercise combo offer to expand its customer base. 'Dance Square', which features a wide range of yoga and dance classes such as hot yoga, thai-boxing and hip hop dance, is aimed at helping our customers achieve their desired body-shape and body weight.

We have yoga and fitness centres in Central, Causeway Bay, Admiralty, Hung Hom, Jordan and Tsuen Wan. Revenue generated from this segment reached HK$45.7 million, representing a 19.9% decrease from the preivous year.

Extension of Retail Network for 'be Beauty Shop'

During the year, we continued to expand our business by promoting our own-label products. Having achieved encouraging response from the market, in addition to the 7 existing outlets, we have opened 6 more outlets in various densely populated residential areas. They are: Shum Shui Po, To Kwa Wan, Mei Foo, Hunghom, Central and Tai Po. The new openings took the number of 'be Beauty Shop' to 13 as at 31 March 2009.

Seven skincare series are available at the outlets, including Icy White Deluxe Series, Camomile Kiss Series, Collagen Cellular Regenerating Series, Self Blending Serum Concentrate, Problem Skin Series, Deep Ocean Skin Series and Magic Essence. They are specially designed to suit different skin types. Each outlet carries over 80 types of products. Products sales reached HK$20.0 million, or 3.0% of total revenue, down 5.8% from the previous year (2008: HK$21.2 million).

In order to expand our market share, the franchise arrangement of 'be Beauty Shop' has been promoted to the public. We are confident about its business potential.

Growth in Men's Care Segment

We have recorded a significant growth in sales in the men's care segment during the year under review. The Group has launched the 'HEYMAN' brand. Since then, we have continued to provide skincare and bodyfirming products and services to meet the needs of our male customers. In November 2008, the Group launched a "HEYMAN Spokeperson Competition" in Whampoa Garden. The event included an introduction of our services, performances by pop singers and famous bands, and quiz shows. Thanks to our ad campaigns, the number of male customers jumped 26.5% to 14,300 as at 31 March 2009 from 11,300 a year earlier. The men's care segment reported revenue of HK$37.5 million, representing a 38.7% increase from a year earlier.

The Group believes the men's care segment has great business potential and it is expected to contribute more income to the Group going forward.

Continuous Expansion of Hong Kong Service Network

During the year under review, we have added four more service centres to our Hong Kong service network.

There are twelve new centres in Tsim Sha Tsui, Tai Po, Wan Chai, Mei Foo, Kwai Chung, Hunghom, Sai Kung, Ho Man Tin and Quarry Bay. Including seven stores that have been moved or closed, we have a total of 36 stores in Hong Kong. They have a total weighted average gross floor area of approximately 340,000 square feet. Our customer base grew 15.2% to 242,000 as at 31 March 2009 from 210,000 a year earlier. Around half of those customers are active customers. Revenue from Hong Kong declined 18.9% to HK$626.0 million from a year earlier (2008: HK$772.1 million).

Business Expansion in Mainland China

During the year under review, the Group added two new service centres in Mainland China, one each in Beijing and Shanghai. The centres offer comprehensive services including beauty and facial treatments, spa and massage, and slimming services, and are targeted at China's growing middle class who demand high quality beauty and wellness services. As at 31 March 2009, we have 10 service centres in Mainland China.

The total weighted average gross floor area of the 10 service centres in Mainland China is approximately 52,000 square feet. The number of customers jumped 90.9% to 21,000 from March 2008. Revenue from Mainland China rose 157% to HK$35.7 million year on year (2008: HK$13.9 million).

Operational Highlights

	As at 31 March		
	2009	2008	**Growth**
No. of service centres	**46**	40	**+15.0%**
Hong Kong	**36**	32	**+12.5%**
Mainland China	**10**	8	**+25.0%**
Total weighted average gross floor area (square feet)	**392,000**	320,000	**+22.5%**
Hong Kong	**340,000**	298,000	**+14.1%**
Mainland China	**52,000**	22,000	**+136.4%**
No. of customers	**263,000**	221,000	**+19.0%**
Hong Kong	**242,000**	210,000	**+15.2%**
Mainland China	**21,000**	11,000	**+90.9%**
Number of staff	**1,781**	1,912	**-6.9%**
Frontline beauty staff	**1,565**	1,608	**-2.7%**
Back office staff	**216**	304	**-28.9%**

FINANCIAL REVIEW

Financial Performance

For the financial year ended 31 March 2009, the Group recorded a decline in turnover. For the year ended 31 March 2009, the Group recorded a total turnover of HK$661.8 million, representing a decrease of 15.8% as compared to HK$786.0 million in 2008. The profit for the year amounted to HK$17.2 million (2008: HK$226.8 million), representing a decline of 92.4%. Net profit margin for the year was dropped to 2.6% as compared to 28.9% in 2008. The Group's basic earnings per share for the year was HK 2.38 cents as compared to HK31.34 cents in 2008.

Financial Highlights

	2009 HK$'000	2008 HK$'000	Change
• Turnover	**661,795**	786,002	**-15.8%**
• Operating expenses	**(634,621)**	(516,799)	**+22.8%**
• Profit for the year	**17,225**	226,773	**-92.4%**
• Dividend per share (HK cents)	**4.30**	18.80	**-77.1%**
• Basic earnings per share (HK cents)	**2.38**	31.34	**-92.4%**
• Net profit margin	**2.6%**	28.9%	**-26.3pt**

Turnover

The Group recorded a total turnover of HK$661.8 million for the year ended 31 March 2009, representing a decrease of 15.8% as compared to HK$786.0 million in 2008. The decrease in turnover of approximately HK$124.2 million was mainly due to the decrease of sales of service to customers during the year under review.

Segment Performance

The performance of our major service lines and product sales during the year 2009 is summarised as follows:

	2009		2008		
Sales Mix	**HK$'000**	**% to turnover**	HK$'000	% to turnover	**Change**
Beauty and facial	**329,840**	**49.9%**	358,516	45.6%	**-8.0%**
Spa and massage	**150,266**	**22.7%**	184,504	23.5%	**-18.6%**
Slimming	**115,971**	**17.5%**	164,675	21.0%	**-29.6%**
Fitness	**45,716**	**6.9%**	57,067	7.2%	**-19.9%**
Beauty products sales	**20,002**	**3.0%**	21,240	2.7%	**-5.8%**
Total turnover	**661,795**	**100.0%**	786,002	100.0%	**-15.8%**

The decrease in turnover of approximately HK$124.2 million during 2009 was mainly due to the decrease in the sales of beauty and facial treatment by HK$28.7 million, decrease in the sales of spa and massage by HK$34.2 million and in the sales of slimming services by HK$48.7 million, which represent sales decline of 8.0%, 18.6% and 29.6% respectively. Such decreases in sales of services were due to the global and local economic downturn commencing from the third quarter of the year 2008.

Operating Expenses

The Group's operating expenses mainly included employee benefit expenses, occupancy costs, advertising and promotion expenses, depreciation and amortisation, bank charges and income tax expense. The major expenses are set out as follows:

	2009		2008	
Items	**HK$'000**	**% to turnover**	HK$'000	% to turnover
Employee benefit expenses	**332,923**	**50.3%**	274,385	34.9%
Occupancy costs	**111,465**	**16.8%**	79,957	10.2%
Advertising and promotion expenses	**28,177**	**4.3%**	23,781	3.0%
Depreciation and amortisation	**40,736**	**6.2%**	33,003	4.2%
Bank charges	**29,914**	**4.5%**	28,364	3.6%
Income tax expense	**4,990**	**0.8%**	47,060	6.0%

Due to the decease of turnover and increase of new service centres during the year ended 31 March 2009, the total expenses for employee benefit expenses, occupancy costs and advertising and promotion expenses raised to 71.4% to turnover, a significant increase from last year's 48.1% to turnover.

As more service centres were opened in Hong Kong and Mainland China, more employees were employed during the year which resulted the employee benefit expenses to increase by 21.3% to HK$332.9 million for the year under review. The Group's total employee benefit expenses raised at a level of 50.3% of total turnover. Commencing from the third quarter of the year 2008, the Group has introduced certain cost saving measures which resulted the total headcount to reduce from 1,912 as at 31 March 2008 to 1,781 as at 31 March 2009 (Hong Kong: 1,518; Mainland China: 263). For the year under review, occupancy costs increased by HK$31.5 million to HK$111.5 million, with an increment of 39.4%. The increase was mainly due to the expansion of the total Group's service network both in Hong Kong and Mainland China before the global and local economic downturn. The number of service centres increased to 46 with total weighted average gross floor area of 392,000 square feet as at 31 March 2009, as compared to 40 service centres with 320,000 square feet as at 31 March 2008, representing an expansion of the floor area by 22.5%. The increase in occupancy costs was also caused by the rental increment in renewal of existing tenancies.

Net Profit and Margin

Net profit for the year decreased by 92.4% to HK$17.2 million for the year ended 31 March 2009 as compared to HK$226.8 million for the year ended 31 March 2008. Net profit margin was dropped to 2.6%. Excluding the Mainland China business, the Group achieved a net profit of HK$23.4 million with a net profit margin of 3.7%. Basic earnings per share was HK2.38 cents as compared to HK31.34 cents for last year.

Liquidity and Financial Position

The total equity of the Company as at 31 March 2009 was HK$298.9 million (2008: HK$374.7 million). The Group generally finances its operation with internal generated cash flows from operations. The Group continued to maintain a healthy financial position with cash and cash equivalents of approximately HK$137.8 million as at 31 March 2009 (2008: HK$349.8 million) with no external bank borrowing. During the year, the majority of the Group's cash was held under fixed and saving deposits in renowned banks in line with the Group's prudent treasury policy. As at 31 March 2009, the Group had net current assets of approximately HK$24.9 million (2008: HK$115.2 million).

Capital Expenditure

The total capital expenditure incurred by the Group during the year ended 31 March 2009 amounted to HK$59.3 million (2008 : HK$157.7 million), which was mainly used for the additions of leasehold improvements, equipment and machinery in connection with the expansion of its service network in Hong Kong and Mainland China.

Deferred Revenue

The movement of the deferred revenue for the year ended 31 March 2009 is summarised as follows:

	2009	2008	
	HK$'000	HK$'000	**Change**
Beginning of the year	**265,028**	420,007	**-36.9%**
Exchange differences	**163**	(728)	**+122.4%**
Receipts during the year	**631,016**	610,511	**+3.4%**
Sales of beauty and wellness services	**(621,686)**	(733,296)	**-15.2%**
Sales recognised upon expiring prepaid beauty packages	**(20,107)**	(31,466)	**-36.1%**
End of the year	**254,414**	265,028	**-4.0%**

With the expansion of the Group's network coverage and greater effort in promotion, the receipts from sales of new prepaid beauty packages for the year increased by 3.4% to HK$631.0 million as compared to HK$610.5 million in 2008. Due to the global and local economic downturn commencing from the third quarter of 2008, the undermined consumer sentiment seriously affected the customers buying attitude, resulting in the deferred revenue as at 31 March 2009 to have decreased by 4.0% to HK$254.4 million as compared to the balance of HK$265.0 million as at 31 March 2008.

Contingent Liabilities and Capital Commitment

In June 2008, the Group acquired a 12-storey commercial property located in Tsim Sha Tsui, with a gross floor area of approximately 13,355 square feet at an investment cost of HK$132.8 million. The Group had capital commitment of approximately HK$120.7 million as at 31 March 2009 (2008: HK$8.3 million) mainly for the acquisition of Tsim Sha Tsui's property. The acquisition has been completed on 30 June 2009. The acquisition was financed by internal resources and a bridging loan of HK$118 million ("Bridging Loan") granted by Ms. Tsang Yue, Joyce, the beneficial shareholder of the Company. Upon the completion of the acquisition, the Group will obtain loan facilities from a licensed bank for repayment of the Bridging Loan.

Charges on Assets

As at 31 March 2009, the Group had pledged bank deposits of HK$9.4 million (2008: HK$9.3 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign Exchange Risk Exposure

The Group's transactions and receivables are mainly denominated in Hong Kong dollars and are not exposed to significant foreign exchange risk. Net assets of key foreign subsidiaries in Mainland China denominated in Renminbi are exposed to foreign currency translation risk. The Group periodically reviews liquid assets and liabilities held in currencies other than the Hong Kong dollars to ensure that net exposure is kept at an acceptable level.

Significant Acquisition

There was no significant acquisition by the Group during the year except for the acquisition of a property located in Tsim Sha Tsui as stated in the section headed "Contingent Liabilities and Capital Commitment".

Treasury Policies

The Group adopts a prudent approach in the treasury policy. The Group's surplus funds are held under fixed and saving deposits in renowned banks.

Human Resources

As at 31 March 2009, the Group had a total work force of 1,781 employees (31 March 2008: 1,912 employees), including 1,565 frontline beauty employees who were located at the Group's 46 service centres and 216 back-office employees who were based in office. Of which, 1,518 employees were employed in Hong Kong while 263 employees worked in Mainland China. The total employee benefit expenses, including directors' emoluments for the year under review, amounted to HK$332.9 million as compared to HK$274.4 million in 2008.

The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of the performance and experience of the individual. The Group has been constantly reviewing staff remuneration incentive to ensure that it is competitive within the industry. For the purpose of motivating and rewarding our staff, discretionary bonus and share options are granted to eligible employees based on individual and Group performance. The Group has adopted a share option scheme on 20 January 2006.

Proceeds from Initial Public Offering

The net proceeds from the Company's initial public offering in February 2006 were approximately HK$161.6 million, after deduction of related listing expenses. During the year ended 31 March 2009, the usage of proceeds were in accordance with the future plans and prospects set out in the Company's prospectus dated 27 January 2006 and within the limit of the net proceed.

PROSPECTS

At Modern Beauty Salon, we are committed to doing our best to meet the needs of our customers.

Continuous Expansion of Men's Care Service

In spite of the economic downturn in the second half of the financial year, the men's care segment performed well, registering a growth of 38.7% over the year. With the increased demand for men's care service, the Directors believe there is strong potential in the segment. In the coming years, the Group will allocate more resources to promote and market the service in this area. The Directors are confident that it will be a significant source of revenue for the Group in the future.

Expand Service in "be Beauty Shop"

Apart from providing various types of beauty and wellness products under our own-label, 'be Beauty Shop' also provides beauty services such as 'Be Nail'. Surveys show Hong Kong females enjoy pampering their fingernails. The Directors believe that the demand for nail service will increase in the coming years. In the mean time, the Group will continue to look out for new services to meet the needs of customers.

Promotion of "SooYoga" Brand

A growing awareness for health among the people of Hong Kong people has driven more customers to practice yoga. To meet that demand, the Group plans to recruit more professional trainers and offer more yoga and dance classes in the future.

Consolidation of Service Centres

The operating environment for the year under review, particularly in the second half of the year, was difficult as a result of the economic slowdown, weak consumption and higher rents. To cope, the Group will consolidate its service centres in Hong Kong in order to manage its resources more effectively. As a result, stores that underperform will be closed down. Any expansion plans will continue to be made prudently next year.

Launching Franchise Business in China

In view of the growing demand for beauty and wellness services in Mainland China, the Group has made plans to launch a franchise business targeting at people who are interested in investing in the beauty industry. We will provide support services, from the shop renovation to staff training and product supplies. The Directors believe that, with the Group's reputation and expertise in the industry, the franchisees will be able to operate the business successfully. It is also the most effective way to expand the Group's market share in Mainland China. With the above development plans, we are optimistic that we can continue to expand our customer base. The Directors are ready to tackle the challenges ahead. Priorities will be given to sustaining the core beauty and wellness services operation. At the same time, we will continue to maintain a healthy cash position for the Group.

Dividend Per Share

The Board do not recommend any final dividend to the shareholders of the Company for the year ended 31 March 2009. Together with the interim dividend of HK4.30 cents paid during the year, the total dividend for the year ended 31 March 2009 will be HK4.30 cents per share. This indicates a 180.7% dividend payout ratio of the current year profit.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "Annual General Meeting") for the year ended 31 March 2009 will be held on 21 August 2009.

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

During the year ended 31 March 2009, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold, any of the Company's listed securities.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 19 August 2009 to Friday, 21 August 2009, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 18 August 2009.

CORPORATE GOVERNANCE PRACTICE

The Board is committed to establishing and maintaining high standards of corporate governance.

The Board is in the opinion that the Company has applied the principles of all the applicable code provisions of the Code on Corporate Governance Practices ("the Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 March 2009, except for the following deviations:

Code Provision A.2.1. stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. As of 31 March 2009, Mr. Lee Soo Ghee (formerly Ms. Tsang Yue, Joyce who resigned as the chairperson and chief executive officer of the Company on 26 November 2008) is currently both the Chairperson and Chief Executive Officer of the Company.

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 management of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company has established the Audit Committee on 20 January 2006 with written terms of reference in compliance with the Code to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee comprised three Independent Non-executive Directors of the Company. The annual results of the Group for the year ended 31 March 2009 have been reviewed by the Audit Committee, prior to the approval by the Board.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal control of the Group which covers all material controls, including financial, operational and compliance controls and risk management functions.

The purpose of the Group's internal control system is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems so that the Group's objectives can be achieved.

The Board, through the Audit Committee, has conducted review on the effectiveness of these systems covering the financial, operational, procedural compliance and risk management functions and considered such systems effective and adequate to safeguard the interest of the shareholders and the Group.

The process used in reviewing the effectiveness of system of internal control of the Group includes discussion with management on risk areas identified by management.

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 27 July 2009 and will be available at the Stock Exchange's and the Company's websites at the same time.

By order of the Board
Modern Beauty Salon Holdings Limited
Lee Soo Ghee
Chairperson

Hong Kong, 17 July 2009

As at the date of this announcement, the Board of Directors of the Company consists of five executive Directors, Mr. Lee Soo Ghee, Ms. Yuen Siu Ping, Mr. Yip Kai Wing, Mr. Kwong Chi Ching, Ms. Mok Hin Yuk and three independent non-executive Directors, Mr. Cheng Kai Tai, Allen, Mr. Yip Ki Chi, Luke and Mr. Soo SK Sean.