# 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 2010

### FINANCIAL HIGHLIGHTS

- Group's turnover decreased by 34.9% to HK$ 430.8 million
- Receipts from sales of prepaid beauty packages decreased by 16.9%
- Revenue from Hong Kong business decreased by 36.4%
- Revenue from PRC business decreased by 8.8%
- Proposed special dividend of HK2.8 cents per share

### OPERATIONAL HIGHLIGHTS

- Hong Kong business comprised 32 beauty and spa service centres with a weighted average total gross floor area of 298,000 square feet
- Weighted average total gross floor area decreased by 9.2% to approximately 356,000 square feet
- Customer number in Hong Kong reached approximately 262,000, including approximately 15,000 male customers
- Mainland China business comprised 10 service centres respectively in Guangzhou, Shanghai and Beijing, with approximately 27,000 customers in total.

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 2010, with comparative figures for the previous year as follows. The annual results for the year ended 31 March 2010 have been reviewed by the audit committee of the Company.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

| | *Note* | **2010** | 2009 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Turnover** | 4 | **430,750** | 661,795 |
| Other income | 5 | **5,928** | 11,392 |
| Cost of inventories sold | | **(15,319)** | (20,258) |
| Advertising costs | | **(8,839)** | (28,177) |
| Building management fees | | **(18,242)** | (21,907) |
| Bank charges | | **(23,775)** | (29,914) |
| Employee benefit expenses | | **(254,108)** | (332,923) |
| Depreciation and amortisation | | **(42,864)** | (40,736) |
| Occupancy costs | | **(108,777)** | (111,465) |
| Other operating expenses | | **(53,618)** | (69,499) |
| **Operating (loss)/profit** | | **(88,864)** | 18,308 |
| Interest income | | **267** | 3,907 |
| Finance costs | 6 | **(2,387)** | — |
| Gain on disposals of subsidiaries | | **36,592** | — |
| **(Loss)/profit before tax** | | **(54,392)** | 22,215 |
| Income tax credit/(expense) | 7 | **13,147** | (4,990) |
| **(Loss)/profit for the year** | 8 | **(41,245)** | 17,225 |
| **Other comprehensive income after tax for the year:** | | | |
| Exchange differences on translating foreign operations | | **200** | 362 |
| **Total comprehensive (loss)/income for the year** | | **(41,045)** | 17,587 |
| Dividends | 10 | **20,259** | 31,111 |
| (Loss)/earnings per share (HK cents) | 9 | | |
| - Basic | | **(5.70)** | 2.38 |
| - Diluted | | **N/A** | 2.37 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 MARCH 2010

| | *Note* | **2010** | 2009 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **75,444** | 127,897 |
| Leasehold land prepayments | | **122,374** | 113,681 |
| Trade and other receivables, deposits and prepayments | 11 | **24,037** | 21,578 |
| Deferred tax assets | | **26,190** | 9,701 |
| | | **248,045** | 272,857 |
| **Current assets** | | | |
| Inventories | | **6,492** | 9,403 |
| Leasehold land prepayments | | **3,241** | 2,203 |
| Trade and other receivables, deposits and prepayments | 11 | **171,372** | 138,180 |
| Current tax assets | | **5,566** | 39,866 |
| Pledged bank deposits | | **7,155** | 9,412 |
| Cash and cash equivalents | | **244,905** | 137,826 |
| | | **438,731** | 336,890 |
| **Total assets** | | **686,776** | 609,747 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | | **72,352** | 72,352 |
| Reserves | | **186,847** | 226,560 |
| **Total equity** | | **259,199** | 298,912 |

| | *Note* | **2010** | 2009 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **—** | 1,055 |
| **Current liabilities** | | | |
| Trade and other payables, deposits received and accrued expenses | 12 | **48,629** | 53,556 |
| Deferred revenue | 13 | **376,565** | 254,414 |
| Current tax liabilities | | **2,383** | 1,810 |
| | | **427,577** | 309,780 |
| **Total liabilities** | | **427,577** | 310,835 |
| **Total equity and liabilities** | | **686,776** | 609,747 |
| **Net current assets** | | **11,154** | 27,110 |
| **Total assets less current liabilities** | | **259,199** | 299,967 |

## 1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations.

These financial statements have been prepared under the historical cost convention.

## 2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2009. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

### a. Presentation of financial statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the statement of comprehensive income, and the total carried to the statement of changes in equity. The owner changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

### b. Operating segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The segment accounting policies under HKFRS 8 are stated in note 3 to this results announcement.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 3 SEGMENT INFORMATION

The Group has two reportable segments as follows:

Beauty and wellness services — Provision of beauty and wellness services

Skincare and wellness products — Sales of skincare and wellness products

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. The accounting policies of the operating segments are the same as those described in the Group's financial statements for the year ended 31 March 2009. Segment profits or losses do not include other income, interest income, finance costs, unallocated costs, which comprise corporate administrative expenses, gain on disposals of subsidiaries, and income tax credit or expense. Segment assets do not include property held for corporate uses, current tax assets and deferred tax assets. Segment liabilities do not include current tax liabilities and deferred tax liabilities.

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

**Information about reportable segment profit or loss, assets and liabilities:**

| | Beauty and wellness services HK$'000 | Skincare and wellness products HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31 March 2010** | | | |
| Revenue from external customers | 402,016 | 28,734 | 430,750 |
| Inter-segment revenue | — | 11,756 | 11,756 |
| Segment (loss)/profit | (81,817) | 11,838 | (69,979) |
| *Other segment information:* | | | |
| Additions to non-current assets | 153,080 | — | 153,080 |
| Depreciation and amortisation | 41,591 | 698 | 42,289 |
| **As at 31 March 2010** | | | |
| Segment assets | 652,856 | 2,164 | 655,020 |
| Segment liabilities | 422,018 | 3,176 | 425,194 |
| Year ended 31 March 2009 | | | |
| Revenue from external customers | 641,793 | 20,002 | 661,795 |
| Inter-segment revenue | — | 16,054 | 16,054 |
| Segment profit | 27,203 | 13,363 | 40,566 |
| *Other segment information:* | | | |
| Additions to non-current assets | 57,788 | — | 57,788 |
| Depreciation and amortisation | 39,532 | 274 | 39,806 |
| As at 31 March 2009 | | | |
| Segment assets | 517,195 | 7,505 | 524,700 |
| Segment liabilities | 304,403 | 3,567 | 307,970 |

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

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Profit or loss:** | | |
| Total (loss)/profit of reportable segments | **(69,979)** | 40,566 |
| Other income | **5,928** | 11,392 |
| Interest income | **267** | 3,907 |
| Finance costs | **(2,387)** | — |
| Gain on disposals of subsidiaries | **36,592** | — |
| Corporate administrative expenses | **(24,813)** | (33,650) |
| Income tax credit/(expenses) | **13,147** | (4,990) |
| Consolidated (loss)/profit for the year | **(41,245)** | 17,225 |
| **Assets:** | | |
| Total assets of reportable segments | **655,020** | 524,700 |
| Property held for corporate uses | **—** | 35,480 |
| Deferred tax assets | **26,190** | 9,701 |
| Current tax assets | **5,566** | 39,866 |
| Total assets | **686,776** | 609,747 |
| **Liabilities:** | | |
| Total liabilities of reportable segments | **425,194** | 307,970 |
| Deferred tax liabilities | **—** | 1,055 |
| Current tax liabilities | **2,383** | 1,810 |
| Total liabilities | **427,577** | 310,835 |
| **Other information:** | | |
| Total additions to non-current assets of reportable segments | **153,080** | 57,788 |
| Additions of property held for corporate uses | **—** | 1,477 |
| Consolidated additions to non-current assets | **153,080** | 59,265 |
| Total depreciation and amortisation of reportable segments | **42,289** | 39,806 |
| Depreciation and amortisation of property held for corporate uses | **575** | 930 |
| Consolidated depreciation and amortisation | **42,864** | 40,736 |

**Geographical information:**

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **398,139** | 626,046 | **192,923** | 234,050 |
| Mainland China | **32,611** | 35,749 | **4,895** | 7,528 |
| Consolidated total | **430,750** | 661,795 | **197,818** | 241,578 |

In presenting the geographical information, revenue is based on the locations of the customers and non-current assets do not include deferred tax assets and trade and other receivables, deposits and prepayments.

## 4 TURNOVER

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue from provision of beauty and wellness services | **391,095** | 621,686 |
| Revenue recognised upon expiry of prepaid beauty packages | **10,921** | 20,107 |
| | **402,016** | 641,793 |
| Sales of skincare and wellness products | **28,734** | 20,002 |
| | **430,750** | 661,795 |

## 5 OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gross rental income | **375** | 731 |
| Food income | **—** | 955 |
| Commission income | **1,350** | 2,652 |
| Magazine subscription income | **1,944** | 6,385 |
| Other income | **2,259** | 669 |
| | **5,928** | 11,392 |

## 6 FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on loan from ultimate controlling party | **2,387** | — |

## 7 INCOME TAX (CREDIT)/EXPENSE

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| Current tax — Hong Kong Profits Tax | | |
| - Provision for the year | **5,260** | 8,430 |
| - Over-provision in prior years | **(1,109)** | (1,065) |
| | **4,151** | 7,365 |
| Deferred tax | **(17,298)** | (2,375) |
| | **(13,147)** | 4,990 |

Hong Kong Profits Tax is provided at 16.5% (2009: 16.5%) based on the assessable profit for the year.

No provision for PRC enterprise income tax has been made for the year ended 31 March 2010 (2009: Nil) as the PRC subsidiaries of the Company either did not generate any assessable profits for the year or have available tax losses brought forward from prior years to offset against any assessable profits generated during the year.

## 8 (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year is stated after charging the following:

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| Auditors' remuneration | **1,912** | 2,763 |
| Depreciation | **39,074** | 38,532 |
| Operating lease charges for land and buildings | **112,567** | 113,669 |
| Loss on disposals of property, plant and equipment | **1,472** | 1,561 |

## 9. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic loss (2009: earnings) per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$41,245,000 (2009: profit attributable to owners of the Company of approximately HK$17,225,000) and the weighted average number of ordinary shares of 723,520,000 (2009: 723,520,000) in issue during the year.

(b) **Diluted (loss)/earnings per share**

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 March 2010.

For the year ended 31 March 2009, the calculation of diluted earnings per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK$17,225,000 and the weighted average number of ordinary shares of 725,884,559, being the weighted average number of ordinary shares of 723,520,000 in issue during that year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 2,364,559 assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the end of that reporting period.

## 10. DIVIDENDS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 2009 interim dividend of HK4.3 cents per ordinary share | **—** | 31,111 |
| Proposed special dividend of HK2.8 cents per ordinary share | **20,259** | — |
| | **20,259** | 31,111 |

*Note:*

Proposed special dividend for the year ended 2010 of HK2.8 cents per ordinary share amounting to HK$20,259,000 is subject to the approval at the annual general meeting of the Company on 27 August 2010.

## 11 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | |
| Rental and other deposits | **24,037** | 21,578 |
| **Current assets** | | |
| Trade receivables | **148,525** | 91,197 |
| Rental and other deposits, prepayments and other receivables | **22,847** | 46,467 |
| Amounts due from related companies | **—** | 516 |
| | **171,372** | 138,180 |
| | **195,409** | 159,758 |

The Group's turnover comprises mainly cash and credit card sales. The credit terms with banks/credit card companies are within 150 days (2009: 150 days) from the date of billings.

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 - 30 days | **26,196** | 29,155 |
| 31 - 60 days | **13,556** | 29,249 |
| 61 - 90 days | **14,859** | 27,255 |
| 91 - 150 days | **5,360** | 5,538 |
| Over 150 days | **88,554** | — |
| | **148,525** | 91,197 |

As at 31 March 2010, trade receivables of approximately HK$86,249,000 (2009: approximately of HK$12,222,000) were held by the banks in reserve accounts to secure the Group's performance of services to customers who paid for the services by the banks' credit cards, in accordance with the merchant agreements entered into between the Group and the banks.

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **148,447** | 91,136 |
| Renminbi | **78** | 61 |
| Total | **148,525** | 91,197 |

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **409** | 918 |
| Other payables, deposits received and accrued expenses | **45,632** | 52,638 |
| Amounts due to related companies | **2,588** | — |
| | **48,629** | 53,556 |

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **409** | 918 |

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **391** | 904 |
| Renminbi | **18** | 14 |
| | **409** | 918 |

## 13. DEFERRED REVENUE

An ageing analysis of the deferred revenue is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **270,234** | 170,602 |
| More than 1 year but within 2 years | **78,570** | 43,883 |
| More than 2 years but within 3 years | **27,761** | 39,929 |
| | **376,565** | 254,414 |

Movement of deferred revenue:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **254,414** | 265,028 |
| Gross receipts for sales of prepaid beauty packages | **524,084** | 631,016 |
| Revenue recognised for provision of beauty and wellness services | **(391,095)** | (621,686) |
| Revenue recognised upon expiring prepaid beauty packages | **(10,921)** | (20,107) |
| Exchange differences | **83** | 163 |
| At end of year | **376,565** | 254,414 |

## BUSINESS REVIEW

| | 2010 | 2009 | Change |
|---|---|---|---|
| No. of service centres | 42 | 46 | -8.7% |
| Hong Kong | 32 | 36 | -11.1% |
| Mainland China | 10 | 10 | — |
| Weighted average total gross floor area (square feet) | 356,000 | 392,000 | -9.2% |
| Hong Kong | 298,000 | 340,000 | -12.4% |
| Mainland China | 58,000 | 52,000 | +11.5% |
| No. of customers | 289,000 | 263,000 | +9.9% |
| Hong Kong | 262,000 | 242,000 | +8.3% |
| Mainland China | 27,000 | 21,000 | +28.6% |
| Number of staff | 1,599 | 1,781 | -10.2% |
| Frontline beauty staff | 1,416 | 1,565 | -9.5% |
| Back office staff | 183 | 216 | -15.3% |

### Retain Strong Client Base, Service and Retail Network

During the financial year ended on 31 March 2010 (the "Year"), the Group continued to maintain a strong customer base and a well-structured service network in Hong Kong. Confronted with an environment of decreased consumer spending, the Group's strategy focused on optimising and enhancing existing operations rather than large-scale expansion. In terms of service centres, the Group has elected to direct its resources to enhancing the layout and interior design of its major centres, while consolidating a few of the underperforming ones once their tenancy agreements expired. As a result, our network coverage of service centres has been reduced from 36 to 32 in Hong Kong during the Year, with a weighted average total gross floor area of approximately 298,000 square feet as at 31 March 2010.

Nonetheless, our customer base in Hong Kong reached 262,000 as at 31 March 2010 as compared to 242,000 as at 31 March 2009, up 8.3%.

**Encouraging Growth of "be" Products**

The Group's ability to introduce innovative and quality products has earned a leading status in the Hong Kong market. During the Year, turnover from the Group's products sales reached HK$28.7 million, a 43.7% increase from the corresponding period last year (2009: HK$20.0 million), and accounted for 6.7% of total revenue, demonstrating the ever-enhancing customers' confidence in and loyalty to our products, and reaffirming this segment's great growth potential.

Various types of beauty and wellness products are available for sale under seven series of skincare service, including Collagen Cellular Regenerating Series, Icy White Deluxe Series, Camomile Kiss Series, Problem Skin Series, Self Blending Serum Concentrate, Deep Ocean Skin Series and "Magic Essence" which are tailor-made to suit all skin types. Each shop provides more than 80 SKUs. These products are not only available in our "be Beauty Shop" outlets, but could also be purchased in the Group's other service centres, in which way a larger target market could be reached.

**Effective Product and Service Mix Optimization**

Segmentation of businesses has been maintained to be under review to ensure efficient resource allocation and operation. The Group has continued to optimize its product and service mix which is to be in line with current market demand and its development trend.

To ensure efficient resources allocation, we have been cautious about any resource input to certain segments such as male care and gym service, which we have maintained their current operation scale while closely monitoring the market demands.

Being a leading beauty service provider, the Group is able to withstand the short term set back in some aspects by refreshing changes and diversification of business, and thus remains to lead the market with its quality and professional services to the customers.

**Mainland China Operations Maintain Stable Performance**

In terms of the market in Mainland China, operations were also adversely affected by the declining global economy and a contracting consumer appetite. As a result, turnover in Mainland China during the Year reached HK$32.6 million, a decline of 8.8% from HK$35.7 million in the corresponding period last year.

During the Year, the number of customers in Mainland China rose to 27,000, an increase of 28.6% as compared to 21,000 in the corresponding period last year. The total weighted average gross floor area of the 10 service centres in Mainland China is approximately 58,000 square feet.

## FINANCIAL REVIEW

### Financial Performance

During the Year, the Group recorded a total turnover of HK$430.8 million, representing a decrease of 34.9% as compared to HK$661.8 million in 2009. Loss attributable to shareholders of the Company amounted to HK$41.2 million for the Year (2009: Profit of HK$17.2 million).

### Key Financial Figures
### As at 31 March

| *(HK$ million)* | **2010** | 2009 | **Change** |
|---|---|---|---|
| Cash and cash equivalents | **244.9** | 137.8 | **+77.7%** |
| Capital expenditure | **153.1** | 59.3 | **+158.2%** |
| Deferred revenue | **376.6** | 254.4 | **+48.0%** |
| Current ratio | **1.03** | 1.09 | **-5.5%** |
| (Loss)/return on assets (%) | **(6.0)** | 2.8 | **-8.8ppt** |
| (Loss)/return on equity (%) | **(15.9)** | 5.8 | **-21.7ppt** |

### Financial Highlights
### For the year ended on 31 March

| *(HK$ million)* | **2010** | 2009 | **Change** |
|---|---|---|---|
| Turnover | **430.8** | 661.8 | **-34.9%** |
| Operating expenses | **(510.2)** | (634.6) | **-19.6%** |
| (Loss)/profit for the year | **(41.2)** | 17.2 | **-339.5%** |
| Dividend per share (HK cents) | **2.8** | 4.3 | **-34.9%** |
| Basic (loss)/earnings per share (HK cents) | **(5.70)** | 2.38 | **-339.5%** |
| Net (loss)/profit margin (%) | **(9.6)** | 2.6 | **-12.2ppt** |

### Turnover

The Group recorded a total turnover of HK$430.8 million for the Year, representing a decrease of 34.9% as compared to HK$661.8 million in 2009. The decrease in turnover was mainly due to the decrease of sales of service to customers during the Year.

**Segment Performance**

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

| | **2010** | | 2009 | | |
|---|---|---|---|---|---|
| | ***HK$*** | ***% to*** | *HK$* | *% to* | |
| **Sales Mix** | ***million*** | ***turnover*** | *million* | *turnover* | **Change** |
| Beauty and facial | **259.4** | **60.2%** | 329.8 | 49.9% | **-21.3%** |
| Spa and massage | **57.2** | **13.3%** | 150.3 | 22.7% | **-61.9%** |
| Slimming | **75.9** | **17.6%** | 116.0 | 17.5% | **-34.6%** |
| Fitness | **9.5** | **2.2%** | 45.7 | 6.9% | **-79.2%** |
| Beauty products sales | **28.8** | **6.7%** | 20.0 | 3.0% | **+44.0%** |
| Total turnover | **430.8** | **100.0%** | 661.8 | 100.0% | **-34.9%** |

The decrease in turnover of approximately HK$231.0 million during 2010 was mainly due to the decrease in the sales of beauty and facial treatment by HK$70.4 million, decrease in the sales of spa and massage by HK$93.1 million and in the sales of slimming services by HK$40.1 million, which representing sales decline of 21.3%, 61.9% and 34.6% respectively. Such decreases in sales of services were due to the global and local economic downturn and weak consumer spending.

**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 (credit)/expense. The major expenses are set out as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | ***HK$*** | ***% to*** | *HK$* | *% to* |
| **Items** | ***million*** | ***turnover*** | *million* | *turnover* |
| Employee benefit expenses | **254.1** | **59.0%** | 332.9 | 50.3% |
| Occupancy costs | **108.8** | **25.3%** | 111.5 | 16.8% |
| Advertising costs | **8.8** | **2.1%** | 28.2 | 4.3% |
| Depreciation and amortisation | **42.9** | **10.0%** | 40.7 | 6.2% |
| Bank charges | **23.8** | **5.5%** | 29.9 | 4.5% |
| Income tax (credit)/expense | **(13.1)** | **-3.1%** | 5.0 | 0.8% |

During the Year, due to the decease of turnover and rising rental fees, the total expenses for employee benefit expenses, occupancy costs and advertising costs rose to 86.4% to turnover, a significant increase from last year's 71.4% to turnover.

During the Year, employee benefit expenses decreased by 23.7% to HK$254.1 million (2009: HK$332.9 million). However, due to the decrease in turnover, the percentage of Group's total employee benefit expenses among total turnover increased to 59.0%. Total headcount was reduced from 1,781 as at 31 March 2009 to 1,599 during the Year (Hong Kong: 1,416; Mainland China: 183). During the Year, occupancy costs declined by HK$2.7 million to HK$108.8 million, a decrease of 2.4%. The decrease in occupancy costs was mainly due to the reduction in the number of service centres in Hong Kong. During the Year, the number of service centres decreased to 42 with total weighted average gross floor area of 356,000 square feet, as compared to 46 service centres with 392,000 square feet as at 31 March 2009, representing a 9.2% decrease in floor area.

**Net (Loss)/Profit**

During the Year, the Group has incurred a loss attributable to equity shareholders of approximately HK$41.2 million (2009: Profit of HK$17.2 million). The unfavourable business environment and weak consumer spending contributed most to the loss. During the Year, an extraordinary gain of approximately HK$36.6 million was recorded, excluding which a loss of HK$77.8 million was registered for the Year as compared to the profit of HK$17.2 million achieved the same period last year.

**Extraordinary Gain**

During the Year, an extraordinary gain of approximately HK$36.6 million was recorded as a result of the disposal of entire issued shares of four investment holding subsidiaries of the Company as stated in the section headed "Significant Disposal".

**Liquidity and Financial Position**

The total equity of the Company as at 31 March 2010 was HK$259.2 million (2009: HK$298.9 million). The Group generally finances its operation with internal generated cash flows from operations. Moreover, on 16 June 2009, Ms. Tsang Yue, Joyce ("Ms.Tsang"), the substantial shareholder, Chairperson and Chief Executive Officer of the Company (re-appointed on 16 April 2010) and All Link International Limited ("All Link"), a company wholly-controlled by Ms. Tsang, entered into an agreement with Joy East Limited, Wise World Limited, East Union Industries Limited, Well Faith International Enterprises Limited and Rise Luck Development Limited for borrowing a bridging loan in the total sum of HK$118.0 million from Ms. Tsang and All Link in order to facilitate the acquisition of a property located in Minden Avenue (as stated in the section headed "Significant Acquisition") which is completed on 30 June 2009.

On 23 September 2009, Modern Beauty Management Company Limited, a wholly owned subsidiary of the Company and All Link entered into a disposal agreement ("Disposal Agreement") to dispose of entire issued shares of each of East Union Industries Limited, Joy East Limited, Well Faith International Enterprise Limited and Wise World Limited (collectively "Disposal Group") and the debt due by the Disposal Group to Modern Beauty Management Company Limited of approximately HK$144.0 million to All Link at the aggregate consideration of HK$190.0 million ("Disposal"). Pursuant to the Disposal Agreement, the aggregate consideration was settled as to HK$118.0 million by setting-off the said bridging loan and as to HK$72.0 million in cash at completion. The Disposal was completed on 13 November 2009. This transaction brought the Group's gearing ratio back to zero and the Group has generated approximately HK$72.0 million for general working capital use, which has strengthened the Group's working capital position.

The Group continued to maintain a healthy financial position with cash and cash equivalents of approximately HK$244.9 million as at 31 March 2010 (2009: HK$137.8 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 2010, the Group had net current assets of approximately HK$11.2 million (2009: HK$27.1 million).

**Capital Expenditure**

The total capital expenditure of the Group during the Year was approximately HK$153.1 million. (2009: HK$59.3 million). The amount included HK$137.9 million allocated for the acquisition of land and buildings as stated in the section headed "Liquidity and Financial Position" and approximately HK$15.2 million allocated for the acquisition of leasehold improvements, equipment and machinery in connection with the relocation of outlets in Hong Kong.

**Deferred Revenue**

The movement of the deferred revenue for the Year is summarised as follows:

| *(HK$ million)* | **2010** | 2009 | **Change** |
|---|---|---|---|
| At beginning of year | **254.4** | 265.0 | **-4.0%** |
| Gross receipts for sales of prepaid beauty packages | **524.1** | 631.0 | **-16.9%** |
| Revenue recognised for provision of beauty and wellness services | **(391.1)** | (621.7) | **-37.1%** |
| Revenue recognised upon expiring prepaid beauty packages | **(10.9)** | (20.1) | **-45.8%** |
| Exchange differences | **0.1** | 0.2 | **-50.0%** |
| At end of year | **376.6** | 254.4 | **+48.0%** |

The aftermath of the global and local economic downturn has continued to undermine the consumer sentiment and the customers' buying attitude, resulting in a decrease of the receipts from sales of new prepaid beauty packages for the Year by 16.9% to HK$524.1 million as compared to HK$631.0 million in 2009. Deferred revenue increased by 48.0% to HK$376.6 million as at 31 March 2010 as compared to the balance of HK$254.4 million as at 31 March 2009, due to decline in service consumption.

**Contingent Liabilities and Capital Commitment**

The Board considered no material contingent liabilities as at 31 March 2010. The Group had capital commitments of HK$1.5 million as at 31 March 2010 (2009: HK$120.7 million) in respect of the acquisition of property, plant and equipment.

**Charges on Assets**

As at 31 March 2010, the Group had pledged bank deposits of HK$7.2 million (2009: HK$9.4 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 as stated in the section headed "Liquidity and Financial Position". The property is located in Minden Avenue with a gross floor area of over 13,000 square feet at an investment cost of HK$137.9 million.

**Significant Disposal**

During the Year, the Company disposed of the Disposal Group as stated in the section headed "Liquidity and Financial Position" at an aggregate consideration of HK$190.0 million. As a result of the Disposal, the Group and Disposal Group entered into the lease agreements, whereby the Group agreed to lease certain properties from Disposal Group at an aggregate annual rental of HK$8.82 million.

**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 2010, the Group had a total work force of 1,599 employees (2009: 1,781 employees), including 1,450 frontline beauty employees who were located at the Group's 42 service centres and 149 backoffice employees who were based in office. Of which, 1,416 employees were employed in Hong Kong while 183 employees worked in Mainland China. The total employee benefit expenses, including directors' emoluments for the Year, amounted to HK$254.1 million as compared to HK$332.9 million in 2009. 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, 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 proceeds.

## PROSPECTS

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

**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', facial treatments and personal image services. 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 meantime, the Group will continue to look out for new services to meet the needs of customers.

**Promotion of "FERRECARE" Concept Stores**

As the Group's newly-launched high-end customer-oriented concept stores, "FERRECARE" is appreciated with encouraging market acceptance and positive customer feed-backs. To cater to our target customers' increasing demand for skin care solution specifically tailored for their unique skin type, we will dedicate more efforts to promote the development of this brand.

**Consolidation of Service Centres**

Resulting from the economic slowdown, weak consumption and higher rents, the operating environment for the Year was tough, particularly in the first half of the Year. To mitigate the adverse impacts and adjust flexibly to this situation, the Group will adopt a dynamic strategy to better cater to the changing market demand. We will consolidate the service centres in Hong Kong, boost individual centre's performance by renovation plans or more efficient marketing strategies, and continue to optimise the resources allocation. Any expansion plans will continue to be made prudently next year.

**Explore Untapped Potential of Cosmetological Technology**

Apart from its current wide range of beauty and health services and product lines, the Group foresees that application of cosmetolocial technology is emerging as a mainstream trend in beauty and skincare. We will strive to introduce and launch more cutting-edged and innovative cosmetology treatments to meet the increasing demands.

**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 has resolved to recommend the payment of a special dividend of HK2.80 cents per share for the year ended 31 March 2010 (2009: Nil). No final dividend (2009: Nil) is recommended for the year under review. The Board did not declare an interim dividend for the six months ended 30 September 2009 (Interim dividend of HK4.30 cents per share was paid for the six months ended 30 September 2008).

Subject to the approval of the shareholders in the forthcoming annual general meeting of the Company on 27 August 2010, the Company plans to pay the special dividend of HK2.80 cents per share on 10 September 2010 to the shareholders whose names appear on the register of the members of the Company on 27 August 2010.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "Annual General Meeting") for the year ended 31 March 2010 will be held on 27 August 2010.

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

During the year ended 31 March 2010, 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, 25 August 2010 to Friday, 27 August 2010, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed special dividend and 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, 24 August 2010.

## 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 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 2010, 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 2010, Mr. Lee Soo Ghee was both the Chairperson and Chief Executive Officer of the Company. Subsequently, Ms. Tsang Yue, Joyce has been appointed as the Chairperson and Chief Executive Officer of the Company whilst Mr. Lee Soo Ghee has resigned as Chairperson and Chief Executive Officer and has been re-designed and appointed as Chief Administrative Officer of the Company with effect from 16 April 2010. Ms. Tsang Yue, Joyce is currently 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 2010 have been reviewed by the Audit Committee, prior to the approval by the Board.

## INTERNAL CONTROL

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 2010 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**
**Tsang Yue, Joyce**
*Chairperson*

Hong Kong, 16 July 2010

*As at the date of this announcement, the Board of Directors of the Company consists of six executive Directors, Ms. Tsang Yue, Joyce, Mr. Lee Soo Ghee, Mr. Yip Kai Wing, Mr. Kwong Chi Ching, Mr. Tung Kwok Lui, Mr. Wong Shu Pui and three independent non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Hong Po Kui, Martin and Mr.Wong Man Hin, Raymond.*