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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 2011

FINANCIAL HIGHLIGHTS

- For FY2011, the Group achieved growth in many segments of services rendered and products sold with turnover reaching approximately HK$586.5 million (FY2010: approximately HK$430.8 million), representing an increase of approximately 36.2%.
- Profit for the year attributable to owners of the Company turned from a loss of approximately HK$41.2 million in FY2010 to a profit of approximately HK$43.9 million.
- Operating margin improved from a loss of 20.6% in FY2010 to an operating profit margin of 8.8% in FY2011.
- Basic earnings per share for the year under review was HK6.07 cents as compared to loss per share of HK5.70 cents for last year.
- The Board recommended the payment of final dividend of HK2.88 cents per share for the year under review.

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 2011 ("FY2011" or the "year under review"), with comparative figures for the year ended 31 March 2010 ("FY2010") as follows. The annual results for the year ended 31 March 2011 have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 HK$'000	2010 HK$'000
Turnover	5	**586,527**	430,750
Other income	6	**16,661**	5,928
Cost of inventories sold		**(18,708)**	(15,319)
Advertising costs		**(9,633)**	(8,839)
Building management fees		**(13,938)**	(18,242)
Bank charges		**(27,534)**	(23,775)
Employee benefit expenses		**(297,982)**	(254,108)
Depreciation		**(38,506)**	(42,864)
Occupancy costs		**(102,057)**	(108,777)
Other operating expenses		**(43,348)**	(53,618)
Operating profit/(loss)		**51,482**	(88,864)
Interest income		**328**	267
Finance costs	7	**–**	(2,387)
Gain on disposals of subsidiaries		**–**	36,592
Profit/(loss) before tax		**51,810**	(54,392)
Income tax (expense)/credit	8	**(7,835)**	13,147
Profit/(loss) for the year	9	**43,975**	(41,245)
Other comprehensive income after tax for the year:			
Gain on property revaluation		**29,798**	–
Exchange differences on translating foreign operations		**745**	200
Other comprehensive income for the year, net of tax		**30,543**	200
Total comprehensive income/(loss) for the year		**74,518**	(41,045)
Profit/(loss) for the year attributable to:			
Owners of the Company		**43,918**	(41,245)
Non-controlling interests		**57**	–
		43,975	(41,245)

	Note	**2011**	2010
		HK$'000	*HK$'000*
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		**74,461**	(41,045)
Non-controlling interests		**57**	–
		74,518	(41,045)
Dividends	*10*	**30,966**	20,259
Earnings/(loss) per share (HK cents)	*11*		
– Basic		**6.07**	(5.70)
– Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2011

	Note	At 31 March 2011 HK$'000	At 31 March 2010 HK$'000 (Restated)	At 1 April 2009 HK$'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment		**50,588**	201,059	243,781
Investment properties		**175,400**	–	–
Trade and other receivables, deposits and prepayments	*12*	**18,494**	24,037	21,578
Deferred tax assets		**18,744**	26,190	9,701
		263,226	251,286	275,060
Current assets				
Inventories		**9,418**	6,492	9,403
Trade and other receivables, deposits and prepayments	*12*	**167,984**	171,372	138,180
Current tax assets		**3,085**	5,566	39,866
Pledged bank deposits		**7,160**	7,155	9,412
Cash and cash equivalents		**323,164**	244,905	137,826
		510,811	435,490	334,687
Total assets		**774,037**	686,776	609,747
EQUITY				
Capital and Reserves				
Share capital		**72,352**	72,352	72,352
Reserves		**231,852**	186,847	226,560
Equity attributable to owners of the Company		**304,204**	259,199	298,912
Non-controlling interests		**79**	–	–
Total equity		**304,283**	259,199	298,912

	Note	At 31 March 2011 HK$'000	At 31 March 2010 HK$'000 (Restated)	At 1 April 2009 HK$'000 (Restated)
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities		**–**	–	1,055
Current liabilities				
Trade and other payables, deposits received and accrued expenses	*13*	**53,233**	48,629	53,556
Deferred revenue	*14*	**413,695**	376,565	254,414
Current tax liabilities		**2,826**	2,383	1,810
		469,754	427,577	309,780
Total liabilities		**469,754**	427,577	310,835
Total equity and liabilities		**774,037**	686,776	609,747
Net current assets		**41,057**	7,913	24,907
Total assets less current liabilities		**304,283**	259,199	299,967

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The registered office of the Company is 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 and its subsidiaries are principally engaged in the provision of beauty and wellness services and sales of skincare and wellness products.

The Group is controlled by Silver Compass Holdings Corp. ("SCHC"), a company incorporated in the British Virgin Islands, which owns 51% of the Company's shares. The remaining 14% of the shares are held by Silver Hendon Enterprises Corp. ("SHEC") and 35% are widely held. Both SCHC and SHEC are wholly owned by Ms. Tsang Yue, Joyce ("Ms. Tsang"). In the opinion of the directors of the Company, SCHC is the ultimate holding company; and Ms. Tsang, who is also a director of the Company, is the ultimate controlling party of the Company.

2. 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 Accounts (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 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 as modified by the investment properties which are carried at their fair values.

3. 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 2010. 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) Classification of land leases

Amendments to HKAS 17 "Leases" deleted the guidance in HKAS 17 that when the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

The Group reclassifies a land lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the Group e.g. at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the land.

Amendments to HKAS 17 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	At 31 March 2011	At 31 March 2010	At 1 April 2009
	HK$'000	*HK$'000*	*HK$'000*
Increase in property, plant and equipment	**123,991**	125,615	115,884
Decrease in leasehold land prepayments	**(123,991)**	(125,615)	(115,884)

(b) Consolidation

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" contains the following requirements:

– Total comprehensive income is attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance. The previous HKAS 27 requires excess losses to be allocated to the owners of the Company, except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

– Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Company. The previous HKAS 27 does not have specific requirements for such transactions.

– When the disposal of a subsidiary results in a loss of control, the consideration of the sale and any investment retained in that subsidiary are required to be measured at their fair values. The previous HKAS 27 does not have specific requirements for such fair value measurements.

The above requirements of HKAS 27 (Revised) has been applied prospectively from 1 April 2010 and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	2011	2010
	HK$'000	*HK$'000*
Increase in profit for the year attributable to owners of the Company	**17**	–
Increase in earnings per share (HK cents)	**0.01**	–

In current year, the Group has early adopted the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" in advance of their effective date (accounting periods beginning on or after 1 January 2012). Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. As a result, the Group's investment properties that are measured using the fair value model have been presumed through sale for the purpose of measuring deferred tax, therefore no deferred tax has been provided in respect of changes in fair value of the Group's investment properties during the year. The amendments to HKAS 12 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	At 31 March 2011	At 31 March 2010	At 1 April 2009
	HK$'000	*HK$'000*	*HK$'000*
Decrease in income tax expense	**(2,079)**	–	–
Increase in profit for the year attributable to owners of the Company	**2,079**	–	–
Increase in earnings per share (HK cents)	**0.29**	–	–
Decrease in deferred tax liabilities	**(6,996)**	–	–
Increase in property revaluation reserve	**4,917**	–	–

Other than the amendments to HKAS 12, the Group has not applied the other 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.

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, unallocated costs, which comprise corporate administrative expenses, gain on disposals of subsidiaries, and income tax expense or credit. Segment assets do not include investment properties, current tax assets and deferred tax assets. Segment liabilities do not include current 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 2011			
Revenue from external customers	550,940	35,587	586,527
Inter-segment revenue	–	14,980	14,980
Segment profit	35,204	18,612	53,816
Other segment information:			
Additions to non-current assets	19,505	1,349	20,854
Depreciation	37,878	628	38,506
As at 31 March 2011			
Segment assets	573,669	3,139	576,808
Segment liabilities	464,670	2,258	466,928
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	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

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

	2011	2010
	HK$'000	*HK$'000*
Profit or loss:		
Total profit/(loss) of reportable segments	**53,816**	(69,979)
Other income	**16,661**	5,928
Interest income	**328**	267
Finance costs	**–**	(2,387)
Gain on disposals of subsidiaries	**–**	36,592
Corporate administrative expenses	**(18,995)**	(24,813)
Income tax (expense)/credit	**(7,835)**	13,147
Consolidated profit/(loss) for the year	**43,975**	(41,245)
Assets:		
Total assets of reportable segments	**576,808**	655,020
Investment properties	**175,400**	–
Deferred tax assets	**18,744**	26,190
Current tax assets	**3,085**	5,566
Total assets	**774,037**	686,776
Liabilities:		
Total liabilities of reportable segments	**466,928**	425,194
Current tax liabilities	**2,826**	2,383
Total liabilities	**469,754**	427,577
Other information:		
Total additions to non-current assets of reportable segments and consolidated additions	**20,854**	153,080
Total depreciation of reportable segments	**38,506**	42,289
Depreciation of property held for corporate uses	**–**	575
Consolidated depreciation	**38,506**	42,864

Geographical information:

	Revenue		**Non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
				(Restated)
Hong Kong	**553,597**	398,139	**223,042**	196,164
Mainland China	**32,930**	32,611	**2,946**	4,895
Consolidated total	**586,527**	430,750	**225,988**	201,059

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.

5. TURNOVER

	2011	2010
	HK$'000	*HK$'000*
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**550,940**	402,016
Sales of skincare and wellness products	**35,587**	28,734
	586,527	430,750

6. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Gross rental income	**–**	375
Commission income	**3,583**	1,350
Magazine subscription income	**102**	1,944
Gain on revaluation of investment properties	**12,600**	–
Other income	**376**	2,259
	16,661	5,928

7. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on loan from ultimate controlling party	**–**	2,387

8. INCOME TAX EXPENSE/(CREDIT)

	2011	2010
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
– Provision for the year	**3,630**	5,260
– Over-provision in prior years	**(3,340)**	(1,109)
	290	4,151
Deferred tax	**7,545**	(17,298)
	7,835	(13,147)

Hong Kong Profits Tax is provided at 16.5% (2010: 16.5%) based on the assessable profits for the year.

No provision for PRC enterprise income tax has been made for the year ended 31 March 2011 (2010: 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.

9. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year is stated after charging the following:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Auditors' remuneration	**1,335**	1,912
Depreciation	**38,506**	42,864
Direct operating expenses of investment properties that did not generate rental income	**53**	–
Operating lease charges for land and buildings	**102,057**	108,777
Loss on disposals of property, plant and equipment	**–**	1,472

10. DIVIDENDS

	2011	2010
	HK$'000	*HK$'000*
Proposed final dividend of HK2.88 cents per ordinary share	**20,837**	–
Interim dividend of HK1.4 cents per ordinary share	**10,129**	–
Special dividend of HK2.8 cents per ordinary share	**–**	20,259
	30,966	20,259

Note: Proposed final dividend for the year ended 2011 of HK2.88 cents per ordinary share amounting to HK$20,837,000 is subject to the approval at the annual general meeting of the Company on 17 August 2011.

11. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings (2010: loss) 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$43,918,000 (2010: loss attributable to owners of the Company of approximately HK$41,245,000) and the weighted average number of ordinary shares of 723,520,000 (2010: 723,520,000) in issue during the year.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings (2010: loss) per share for the years ended 31 March 2011 and 2010 did not assume the exercise of the Company's outstanding share options as the exercise price of these outstanding options were higher than the average market price of the shares of the Company. Accordingly, the share options had no potential dilutive effect for the years ended 31 March 2011 and 2010.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2011	2010
	HK$'000	*HK$'000*
Non-current assets		
Rental and other deposits	**18,494**	24,037
Current assets		
Trade receivables	**45,822**	62,276
Trade deposits retained by banks and credit card companies (Note)	**86,408**	86,249
Rental and other deposits, prepayments and other receivables	**35,677**	22,847
Amounts due from related companies	**77**	–
	167,984	171,372
	186,478	195,409

Note: Trade deposits represent trade receivables 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 the banks' credit cards, in accordance with the merchant agreements entered into between the Group and the banks/credit card companies.

The Group's turnover comprises mainly cash and credit card sales. The credit terms with banks/credit card companies are within 150 days (2010: 150 days) from the date of billings.

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

	2011	2010
	HK$'000	*HK$'000*
0-30 days	**21,747**	26,196
31-60 days	**8,593**	13,556
61-90 days	**10,621**	14,859
91-150 days	**4,021**	5,360
Over 150 days	**840**	2,305
	45,822	62,276

As of 31 March 2011, trade receivables of approximately HK$2,517,000 are past due but not impaired (2010: HK$10,717,000). This relates to banks/credit card companies for whom there are no recently history of default. Most of these balances had been subsequently settled as of the date of this announcement. The ageing analysis of these trade receivables, based on due date, is as follows:

	2011	2010
	HK$'000	*HK$'000*
0-30 days	**791**	7,670
31-60 days	**188**	645
61-90 days	**402**	115
91-150 days	**308**	52
Over 150 days	**828**	2,235
	2,517	10,717

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

	2011	2010
	HK$'000	*HK$'000*
Hong Kong dollars	**45,740**	62,198
Renminbi	**82**	78
Total	**45,822**	62,276

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

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**471**	409
Other payables, deposits received and accrued expenses	**52,633**	45,632
Amounts due to related companies	**129**	2,588
	53,233	48,629

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

	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**471**	409

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

	2011	2010
	HK$'000	*HK$'000*
Hong Kong dollars	**397**	391
Renminbi	**74**	18
	471	409

14. DEFERRED REVENUE

An ageing analysis of the deferred revenue is as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 1 year	**312,438**	270,234
More than 1 year but within 2 years	**52,155**	78,570
More than 2 years but within 3 years	**49,102**	27,761
	413,695	376,565

Movement of deferred revenue:

	2011	2010
	HK$'000	*HK$'000*
At beginning of year	**376,565**	254,414
Gross receipts for sales of prepaid beauty packages	**587,834**	524,084
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(550,940)**	(402,016)
Exchange differences	**236**	83
At end of year	**413,695**	376,565

OVERVIEW

For the year ended 31 March 2011 ("FY2011" or the "year under review"), the Group achieved growth in many segments of services rendered and products sold with turnover reaching approximately HK$586.5 million (for the year ended 31 March 2010 ("FY2010"): approximately HK$430.8 million), representing an increase of approximately 36.2%. In FY2011, employee benefits expenses increased by 17.3% to approximately HK$298.0 million from HK$254.1 million, whilst occupancy costs decreased by 6.2% to approximately HK$102.1 million from HK$108.8 million respectively in FY2010. As a result, operating profit for the year increased to approximately HK$51.5 million as compared to a loss of approximately HK$88.9 million for FY2010. Furthermore, profit for the year attributable to owners of the Company also turned from a loss of approximately HK$41.2 million in FY2010 to a profit of approximately HK$43.9 million. Operating margin improved from a loss of 20.6% in FY2010 to an operating profit margin of 8.8% in FY2011. Basic earnings per share for the year under review was HK6.07 cents as compared to loss per share of HK5.70 cents for last year.

SEGMENT RESULTS

Benefiting from the marked improvement in the economic environment in Hong Kong and Mainland China, revenue from provision of beauty and wellness services and expiry of prepaid beauty packages grew from HK$402.0 million in FY2010 to approximately HK$550.9 million in FY2011, representing an increase of approximately 37.0%. Sales of skincare and wellness products increased from HK$28.7 million in FY 2010 to approximately HK$35.6 million in the year under review, representing an increase of approximately 23.8%.

Hong Kong Operations

During the year under review, receipts from sales of prepaid beauty packages increased from HK$491.0 million in FY2010 to approximately HK$557.7 million, representing an increase of approximately 13.6%, which was attributable to a number of factors. The closures of certain beauty and yoga chain stores in Hong Kong run by other competitors eroded the confidence of customers in consuming prepaid packages. Despite the above, we managed to secure growth in sales of prepaid beauty packages, which was a reflection on the consistent application of our strategy in customer segmentation. Since our establishment, we have placed emphasis to identify customers that are keen in consuming beauty and wellness services so as to furbish their allure and esteem. With gradual improvement in the economy of Hong Kong, the disposable income of our customers also increased and they were willing to allocate more resources to enhance their own beauty and wellness. Hence, the Group was benefited from the gradual improvement in the economy and derived more sales of prepaid beauty packages in Hong Kong.

Upon the outbreak of global financial crisis in late 2008 to early 2009, the Group suffered from loss in FY2010. As such, we restructured our operation structure and reorganised our group establishment. During the year under review, revenue from services rendered increased from HK$370.2 million in FY2010 to approximately HK$519.4 million or an increase of approximately 40.3%.

The Group sells skincare and wellness products through its service centres, as well as a retail network comprising of "be Beauty Shop" and "FERRECARE Concept Store". During the year under review, such skincare and wellness products also included cosmetics and hair care products. In FY2011, efforts were devoted to increase the sales of skincare and wellness products. With a sluggish economy in Europe, a number of European skincare and wellness products producers were looking for opportunities to develop in Greater China market. We, as a market leader in the beauty industry, have reviewed these potential suppliers and entered into discussion selectively with those that produce high-quality skincare and wellness products with state-of-the-art technologies and natural unpolluted material sources. We have successfully concluded new distributorship agreements for new brands of products in FY2011. Furthermore, we created "p.e.n", a new brand under our retail network approaching the end of FY2011. Since the year under review, the Group implemented an extensive marketing campaign to launch the brand, including the appointment of celebrities as spokeswomen and holding opening ceremonies at shopping centres with high traffic flow during weekends. Revenue from sales of skincare and wellness products increased from HK$27.9 million in FY2010 to HK$34.2 million in FY2011.

With an abundant cash flow generating from the provision of beauty and wellness services, our profile can impress our banks to maintain their relationship with us without further tightening their policies towards credit card prepayments.

During the year under review, the number of the Group's services centres in Hong Kong decreased by 3 to 29, with a total weighted average gross floor area of approximately 258,000 square feet, down by 13.4% when compared with the figure of 298,000 square feet as at 31 March 2010. The total number of customers managed under our Hong Kong operations as at 31 March 2011 reached about 278,000, representing an increase of 6.1% when compared with the number of 262,000 as at 31 March 2010.

Mainland China Operations

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 at the three cities referred. During the year under review, our Mainland China Operations reported a turnover of HK$32.9 million and a loss of HK$2.1 million. Receipts from sales of prepaid beauty packages amounted to HK$30.1 million, down by 8.8% when compared with last year. Revenue from services rendered amounted to HK$31.5 million, representing a decrease of 0.8% when compared with last year.

The Mainland China market presents opportunities and challenges to the Group. As the provision of beauty and wellness services in the PRC requires a modification from our existing business model to solicit customers in Hong Kong, we are still in the process of optimizing the business model for Mainland China Operations. Endeavours were used to pursue the business cooperation at second and third tier cities in the PRC during the year under review. As at the date hereof, no formal agreement has been entered into and the timetable, terms and conditions of such business cooperation are yet to be agreed. Further announcement will be made as and when appropriate in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

FINANCIAL REVIEW

Turnover

During the year ended 31 March 2011, turnover increased by HK$155.8 million or 36.2% to HK$586.5 million. Such increase was driven by the increase in the number of customers and rising demand for prepaid beauty packages building from the strong confidence in the Group's operations on an ongoing basis.

Set out below is a breakdown on turnover of the Group by service lines and product sales during FY 2011 (with comparative figures for FY 2010):

	For the year ended 31 March				
	2011		2010		
Sales mix	***HK$'000***	***Percentage of turnover***	*HK$'000*	*Percentage of turnover*	*Change*
Beauty and facial	**381,058**	**65.0%**	259,347	60.2%	+46.9%
Slimming	**109,112**	**18.6%**	75,937	17.6%	+43.7%
Spa and massage	**53,696**	**9.2%**	57,233	13.3%	-6.2%
Fitness	**7,074**	**1.2%**	9,499	2.2%	-25.5%
Beauty and wellness services	**550,940**	**94.0%**	402,016	93.3%	+37.0%
Sales of skincare and wellness products	**35,587**	**6.0%**	28,734	6.7%	+23.8%
Total	**586,527**	**100.0%**	430,750	100.0%	+36.2%

Both beauty and facial and slimming service lines were the strongest driving forces to the growth of the Group's turnover. Benefiting from the improvement of economy and the correct positioning of the Group in the beauty industry of Hong Kong, the contribution to turnover from beauty and facial service line demonstrated a distinguished growth of approximately 46.9% to approximately HK$381.1 million in FY2011 from HK$259.3 million in FY2010. Slimming, being the most essential service complement to beauty and facial, also grew by approximately 43.7% to approximately HK$109.1 million in FY2011 from HK$75.9 million in FY2010.

Set out below is an analysis on the deferred revenue:

	As at 31 March					
	2011			2010		
	Hong Kong	**Mainland China**	**Total**	Hong Kong	Mainland China	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Movement of deferred revenue						
Beginning of the year	**355,376**	**21,189**	**376,565**	234,586	19,828	254,414
Exchange differences	**–**	**236**	**236**	–	83	83
Receipts from sales of prepaid beauty packages	**557,710**	**30,124**	**587,834**	491,038	33,046	524,084
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(519,424)**	**(31,516)**	**(550,940)**	(370,248)	(31,768)	(402,016)
End of the year	**393,662**	**20,033**	**413,695**	355,376	21,189	376,565

We are aware of the importance by technology to enhance operation efficiency. With the growing popularity of mobile handheld computer devices, our real-time online ordering system is well-received by our customers at large. During the year under review, the Group devoted resources to the development of our electronic real-time endorsement and verification system, which allows our customers to reserve booking according to their needs around the clock throughout the year. We sought to reach more customers through an increased number of advertising channels. We do not only place advertisements in magazines but also advertise on television as well as popular portals. As a result, our number of customers increased by 7% during the year under review and we believed this was an evidence demonstrating the positive effect derived from advertising as mentioned above. Hence, sales of new prepaid beauty packages improved upon the favourable business environment and the preferences of customers in selecting the Group for the provision of beauty and wellness services. During the year under review, sales of new prepaid beauty packages amounted to HK$587.8 million, representing an increase of 12.2% from HK$524.1 million in FY2010.

Employees benefit expenses

Employees benefit expenses (including staff's salaries and bonuses as well as directors' remunerations), representing the largest component of the Group's operating expenses, rose by approximately 17.3% to approximately HK$298.0 million comparing to HK$254.1 million in FY2010. This was attributable to the growth of our operations. Employees benefit expenses accounted for 50.8% of our turnover, comparing to 59.0% for FY2010.

The Group's remuneration policies are in line with the prevailing market practices and are determined base on individual performance and experience. The Group constantly reviews staff remuneration to ensure it is competitive within the industry. For motivating and rewarding our staff, discretionary bonus and share options are granted to eligible employees based on individual performance and the Group's results. In addition, the Group introduced the elite system since the first quarter of 2010, whereby excellent staff with outstanding performance will receive discretionary bonuses in recognition of their contribution.

Occupancy costs

During the year under review, the Group conducted a comprehensive review on the performance of various service centres. As a result, service centres with poor performance were closed and some of the service centres were consolidated into larger premises at shopping centres in the adjacent areas. The number of service centres as at 31 March 2011 decreased by 3 to 39 (FY2010: 42), with a total weighted average gross floor area of approximately 315,000 square feet, a decrease of 11.5% as compared to 356,000 square feet in FY2010 and lead to the decrease in occupancy costs. For the year ended 31 March 2011, the Group's occupancy costs amounted to approximately HK$102.1 million (FY2010: HK$108.8 million), accounting for approximately 17.4% (FY2010: 25.3%) of our turnover.

Depreciation

During the year under review, depreciation amounted to approximately HK$38.5 million, a decrease of approximately 10.2% as compared with FY2010. The decrease of depreciation is mainly due to the relocations of existing premises to consolidated premises as discussed above.

Other operating expenses

Other operating expenses mainly include bank charges, advertising costs, utilities and building management fees. Bank charges rose by approximately 15.8% to approximately HK$27.5 million, which was primarily attributable to the increase in sales of new prepaid beauty packages and skincare and wellness products during the year under review. Advertising costs increased to approximately HK$9.6 million, comparing to HK$8.8 million for FY2010. The percentage of advertising costs to turnover dropped from 2.1% to 1.6%, demonstrating the success of our direct selling strategies and the reputation of the Group enjoying in the beauty industry.

Operating profit and operating profit margin

Operating profit for the year increased to approximately HK$51.5 million as compared to a loss of approximately HK$88.9 million for FY2010. Furthermore, profit for the year attributable to owners of the Company also turned from a loss of approximately HK$41.2 million in FY2010 to a profit of approximately HK$43.9 million. Operating margin improved from a loss of 20.6% in FY2010 to a operating profit margin of 8.8% in FY2011. 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 HK6.07 cents as compared to loss per share of HK5.70 cents for the same period last year.

Dividend Per Share

The Board recommended payment of a final dividend of HK2.88 cents per share subject to approval of the shareholders of the Company at the forthcoming Annual General Meeting. Together with the interim dividend of HK1.4 cents paid during the year, the total dividend for the year ended 31 March 2011 will be HK4.28 cents per share. This indicates an approximately 70% dividend payout ratio of the current year profit.

Liquidity and Capital Resources

The Group generally finances our liquidity requirements through the receipts from sales of prepaid beauty packages and settlement of credit card prepayment transactions with banks. We continued to hold abundant cash and cash equivalents of approximately HK$323.2 million as at 31 March 2011 (31 March 2010: HK$244.9 million). Our cash is primarily used to pay for the purchase of skincare and wellness products, materials and consumable used in the provision of beauty and wellness services, as well as funding our working capital and normal operating expenses.

Capital Expenditure

The total capital expenditure of the Group during the year under review was approximately HK$20.9 million (31 March 2010: HK$153.1 million). The amount was allocated for the acquisition of leasehold improvements, equipment and machinery in connection with the relocation of service and retail network in Hong Kong and upgrade of the Group's computer facilities.

Contingent Liabilities and Capital Commitment

The Board considered that there was no material contingent liabilities as at 31 March 2011. The Group had capital commitment of HK$15.0 million as at 31 March 2011 (31 March 2010: HK$1.5 million) in respect of the purchase of plant and equipment.

Charges on Assets

As at 31 March 2011, the Group had pledged bank deposits of HK$7.2 million (31 March 2010: HK$7.2 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign Exchange Risks and Treasury Policies

Most of the Group's sales and purchases were denominated in Hong Kong Dollars. However, the continuous appreciation of Renminbi exerted pressures on the Group's operating expenses in Mainland China. We will closely monitor the risk exposures faced by the Group, and will adopt measures necessary to mitigate such exposures. The majority of the Group's current assets were held in fixed and demand deposits, which were in line with the Group's prudent treasury policy.

HUMAN RESOURCES AND TRAINING

As at 31 March 2011, the Group had a total workforce of 1,534, of whom 1,355 were based in Hong Kong and 179 were located in the PRC.

We recognize that our asset base resides in the talent and the commitment of our people. We believe that investing in our people is investing in the future and our goal is to inspire people and build a culture and environment in which they can grow and succeed.

The delivery of first class beauty and wellness services is built upon a team of qualified experts. Our learning and development initiatives are focused on improving the core functional skills of our people. Over hundreds of in-house learning programs were organized during the year under review, with over hundreds of participants joining through thousands of learning hours. Our programs are designed to be practical and closely linked to our business, with a significant number of seminars conducted by our Chief Executive Officer, thereby allowing mutual communications between the top management and the base staff.

CORPORATE SOCIAL RESPONSIBILITY

We contribute to the social and economic development of the societies and communities in which we operate through managing our environmental impact in the course of operation. We recognize the risks posed by climate change and understand that business action is crucial for our global efforts to combat climate change. At service centres level, we have specific policies stipulating how to minimize the use of air conditioning. We recognize that water is a scarce and valuable resource and have therefore made efforts to reduce our water consumption. At group level, these efforts were reflected from the reduction of our utilities expenses during the year under review.

We were the co-sponsor of the 4th Hong Kong Yogathon held on 10 April 2011 subsequent to the year under review. Participants who made extra donations would receive a FREE complimentary treatment from "Modern Beauty Salon".

OUTLOOK

Renovation work of our Group's property at 5 Minden Avenue has been commenced.

When the property is official opened, the Group would collaborate with tenants to launch a publicity campaign to promote our aesthetics services. By creating a synergy with the tenants, we would be benefiting our tenants, and at the same time bringing in a new source of well-to-do customers for the Group, thereby bringing higher return for our service centre and product sales.

In view of the rapid urbanization of the cities in the PRC, our Group is currently seeking joint-venture development opportunities for service centre in the second-tiered cities in China in order to expand our Group's market share in the PRC.

In the next five years, the Group will strengthen and develop the beauty product business by expanding our sales network, increasing brands and products representation, or even acquiring new beauty product brands so as to achieve our business diversification goal. The sales of beauty products is expected to be a major force behind the Group's profit growth in the future, and we will consider a further separate listing when appropriate.

Purchases, Sale or Redemption of the Company's Listed Securities

During the year ended 31 March 2011, 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.

Corporate Governance Practices

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. During the year ended 31 March 2011, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except for the deviation from Code provision A.2.1 as discussed in the section headed "Chairman and Chief Executive Officer" below.

Chairman and Chief Executive Officer

Mr. Lee Soo Ghee was the Chairperson and Chief Executive Officer of the Company until his resignation on 16 April 2010 and Ms. Tsang Yue, Joyce ("Ms. Tsang") has been re-appointed as the Chairperson and Chief Executive Officer of the Company since that date. Currently, Ms. Tsang is both the Chairperson and Chief Executive Officer of the Company.

Code provision A.2.1. of the Code stipulates that the role of chairman and chief executive officer 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.

Audit Committee

The Board has established an audit committee ("Audit Committee") with defined terms of reference, which are on no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules.

The Audit Committee reviews the Group's financial reporting, internal controls and corporate governance issues and makes relevant recommendations to the Board. The Audit Committee is chaired by Ms. Liu Mei Ling, Rhoda, an Independent Non-executive Director and all Audit Committee members are Independent Non-executive Directors.

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2011 in conjunction with the Company's auditors 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 19 July 2011 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, 29 June 2011

As at the date of this announcement, the Board consists of four executive Directors, Ms. Tsang Yue, Joyce, Mr. Yip Kai Wing, Mr. Leung Man Kit and Mr. Wong Shu Pui and three independent non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond and Mr. Hong Po Kui, Martin.