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 2012

FINANCIAL HIGHLIGHTS

- For FY2012, the Group achieved growth in both segments of services rendered and products sold with turnover reaching approximately HK$756.6 million (FY2011: approximately HK$718.2 million), representing an increase of approximately 5.3%.
- Profit for the year attributable to owners of the Company decreased from approximately HK$89.2 million in FY2011 to approximately HK$82.2 million in FY2012.
- Profit margin decreased from 12.4% in FY2011 to 10.9% in FY2012.
- Basic earnings per share for the year under review was HK11.19 cents as compared to the basic earnings per share of HK12.33 cents for the same period last year.
- The Board recommended the payment of final dividend of HK4.25 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 2012 ("FY2012" or the "year under review"), with comparative figures for the year ended 31 March 2011 ("FY2011") as follows. The annual results for the year ended 31 March 2012 have been reviewed by the audit committee of the Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 HK$'000	2011 HK$'000 (Restated)
Turnover	5	**756,605**	718,230
Other income	6	**3,589**	21,087
Cost of inventories sold		**(19,301)**	(19,691)
Advertising costs		**(11,093)**	(10,891)
Building management fees		**(15,275)**	(13,972)
Bank charges		**(36,864)**	(31,500)
Employee benefit expenses		**(366,753)**	(343,249)
Depreciation		**(31,162)**	(43,908)
Occupancy costs		**(115,028)**	(114,994)
Other operating expenses		**(64,035)**	(54,138)
Operating profit		**100,683**	106,974
Interest income		**995**	520
Finance costs	7	**(321)**	(3)
Profit before tax		**101,357**	107,491
Income tax expense	8	**(19,220)**	(18,228)
Profit for the year	9	**82,137**	89,263
Other comprehensive income after tax for the year:			
Gain on property revaluation		**—**	29,798
Exchange differences on translating foreign operations		**1,234**	(4,105)
Other comprehensive income for the year, net of tax		**1,234**	25,693
Total comprehensive income for the year		**83,371**	114,956
Profit for the year attributable to:			
Owners of the Company		**82,151**	89,206
Non-controlling interests		**(14)**	57
		82,137	89,263

	Note	2012 HK$'000	2011 HK$'000 (Restated)
Total comprehensive income for the year attributable to:			
Owners of the Company		**83,385**	114,899
Non-controlling interests		**(14)**	57
		83,371	114,956
Earnings per share (HK cents)	*11*		
— Basic		**11.19**	12.33
— Diluted		**10.62**	12.33

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2012

	Note	At 31 March 2012 HK$'000	At 31 March 2011 HK$'000 (Restated)	At 1 April 2010 HK$'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment		**75,830**	60,237	212,449
Investment properties		**176,300**	175,400	—
Deposits	*12*	**23,032**	18,494	24,037
Deferred tax assets		**13,662**	22,682	29,021
		288,824	276,813	265,507
Current assets				
Inventories		**13,159**	11,229	8,223
Trade and other receivables, deposits and prepayments	*12*	**217,466**	177,219	185,260
Current tax assets		**7,728**	8,025	5,566
Pledged bank deposits		**7,141**	7,160	7,155
Cash and bank balances		**484,426**	449,495	306,718
		729,920	653,128	512,922
Total assets		**1,018,744**	929,941	778,429
EQUITY				
Capital and reserves				
Share capital		**87,400**	72,352	72,352
Reserves		**184,678**	209,098	123,655
Equity attributable to owners of the Company		**272,078**	281,450	196,007
Non-controlling interests		**65**	79	—
Total equity		**272,143**	281,529	196,007

	Note	At 31 March 2012 HK$'000	At 31 March 2011 HK$'000 (Restated)	At 1 April 2010 HK$'000 (Restated)
LIABILITIES				
Non-current liabilities				
Finance lease payables		**18**	37	53
Convertible note		**4,538**	—	—
		4,556	37	53
Current liabilities				
Trade and other payables, deposits received and accrued expenses	*13*	**72,412**	67,594	61,650
Deferred revenue	*14*	**648,623**	567,627	514,991
Finance lease payables		**19**	20	18
Convertible note		**2,738**	—	—
Current tax liabilities		**18,253**	13,134	5,710
		742,045	648,375	582,369
Total liabilities		**746,601**	648,412	582,422
Total equity and liabilities		**1,018,744**	929,941	778,429
Net current (liabilities)/assets		**(12,125)**	4,753	(69,447)
Total assets less current liabilities		**276,699**	281,566	196,060

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is M&C Corporate Services Limited, PO Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 6th Floor, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries are principally engaged in the provision of beauty and wellness services and sales of skincare and wellness products. In the opinion of the directors of the Company, Ms. Tsang Yue, Joyce ("Ms. Tsang"), who is a director of the Company, is the ultimate controlling party of the Company.

2. 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 and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies.

Acquisition of the entire equity interest in Zegna Management Limited ("Zegna", hereinafter referred to as the "Business Combination")

Pursuant to the sale and purchase agreement dated 5 July 2011 ("SPA") entered into between BE Universal Limited ("BE Universal", a subsidiary of the Company) as purchaser and Ms. Tsang as vendor, BE Universal conditionally agreed to acquire the entire equity interest in Zegna together with its subsidiaries (collectively referred to as the "Zegna Group") from Ms. Tsang at a consideration of HK$250,000,000 which is to be satisfied by the issue of convertible note at conversion price of HK$1.05 per share ("CN").

On 30 September 2011, BE Universal and Ms. Tsang entered into a supplemental sales and purchase agreement ("Supplemental SPA") to amend and supplement certain terms of the SPA including (i) the businesses of two subsidiaries of Zegna, namely Modern Beauty Salon (S) Pte. Limited ("MBSS") and Splendid Overseas Pte. Limited to be taken up by another newly set-up subsidiary; (ii) MBSS shall execute a deed of waiver in favour of Euro King Limited ("Euro King", a then subsidiary of Zegna) to discharge and release its obligations to settle any amounts due to MBSS as ascertained in a special audit up to a maximum amount of HK$70,000,000; and (iii) the entire issued share capital of Euro King shall be transferred by Zegna to Ms. Tsang (or her nominee) at nil consideration, representing deemed partial consideration of the Business Combination; in fact that Euro King shall not form part of the Zegna Group in the Business Combination. Details of the SPA and Supplemental SPA relating to the Business Combination are set out in the announcement and circular of the Company dated 5 July 2011 and 30 September 2011 respectively.

The Business Combination was completed on 10 January 2012 when all the precedent conditions to the Business Combination were fulfilled and the issue of the CN has taken place.

As the Company and the Zegna Group were both under the common control of Ms. Tsang before and after the Business Combination, the Business Combination was accounted for as a business combination of entities and businesses under common control. The consolidated financial statements of the Group for the year ended 31 March 2012 were prepared based on the principle of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting For Common Control Combinations" ("AG 5") issued by the HKICPA, as if the Business Combination had occurred from the date when the combining entities first came under the control of Ms. Tsang. As a result, the comparative figures in the consolidated financial statements have been restated accordingly.

The following tables summarise the combined results of operations and the financial positions of the Group and the Zegna Group for the year ended 31 March 2011 and as at 31 March 2011 and 1 April 2010 to reflect the impact of the Business Combination:

	The Group (as previously reported before the Business Combination)	**Effect of the Business Combination**	**The Group (as restated after the Business Combination)**
	HK$'000	*HK$'000*	*HK$'000*
For the year ended 31 March 2011			
Results:			
Turnover	586,527	131,703	718,230
Profit for the year	43,975	45,288	89,263
As at 31 March 2011			
Financial position:			
Non-current assets	263,226	13,587	276,813
Current assets	510,811	142,317	653,128
Total assets	774,037	155,904	929,941
Non-current liabilities	—	37	37
Current liabilities	469,754	178,621	648,375
Total liabilities	469,754	178,658	648,412
Net assets/(liabilities)	304,283	(22,754)	281,529
As at 1 April 2010			
Financial position:			
Non-current assets	251,286	14,221	265,507
Current assets	435,490	77,432	512,922
Total assets	686,776	91,653	778,429
Non-current liabilities	—	53	53
Current liabilities	427,577	154,792	582,369
Total liabilities	427,577	154,845	582,422
Net assets/(liabilities)	259,199	(63,192)	196,007

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 2011. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS") and Interpretations. 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.

For the year ended 31 March 2011, 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. The amendments to HKAS 12 have been applied retrospectively.

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, and income tax expense. Segment assets do not include investment properties, current tax assets and deferred tax assets. Segment liabilities do not include current tax liabilities, convertible note, amounts due to related companies, amount due to ultimate controlling party, and amount due to a related party.

The Group accounts for inter-segment 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 2012			
Revenue from external customers	**709,785**	**46,820**	**756,605**
Inter-segment revenue	**—**	**22,034**	**22,034**
Segment profit	**105,724**	**24,932**	**130,656**
Other segment information:			
Additions to non-current assets	**40,188**	**6,913**	**47,101**
Depreciation	**29,261**	**1,901**	**31,162**
As at 31 March 2012			
Segment assets	**816,668**	**4,386**	**821,054**
Segment liabilities	**710,980**	**9,980**	**720,960**
Year ended 31 March 2011 (Restated)			
Revenue from external customers	677,293	40,937	718,230
Inter-segment revenue	—	16,278	16,278
Segment profit	87,945	21,830	109,775
Other segment information:			
Additions to non-current assets	22,094	1,349	23,443
Depreciation	43,279	629	43,908
As at 31 March 2011 (Restated)			
Segment assets	720,091	3,743	723,834
Segment liabilities	628,800	5,262	634,062

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

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Profit or loss:		
Total profit of reportable segments	**130,656**	109,775
Other income	**3,589**	21,087
Interest income	**995**	520
Finance costs	**(321)**	(3)
Corporate administrative expenses	**(33,562)**	(23,888)
Income tax expense	**(19,220)**	(18,228)
Consolidated profit for the year	**82,137**	89,263
Assets:		
Total assets of reportable segments	**821,054**	723,834
Investment properties	**176,300**	175,400
Deferred tax assets	**13,662**	22,682
Current tax assets	**7,728**	8,025
Total assets	**1,018,744**	929,941
Liabilities:		
Total liabilities of reportable segments	**720,960**	634,062
Current tax liabilities	**18,253**	13,134
Convertible note	**7,276**	—
Amounts due to related companies	**110**	379
Amount due to ultimate controlling party	**2**	2
Amount due to a related party	**—**	835
Total liabilities	**746,601**	648,412
Other information:		
Total additions to non-current assets of reportable segments and consolidated additions	**47,101**	23,443
Total depreciation of reportable segments and consolidated depreciation	**31,162**	43,908

Geographical information:

	Revenue		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)
Hong Kong	**616,426**	552,790	**233,487**	223,042
Mainland China	**36,124**	32,930	**2,446**	2,945
Singapore	**92,314**	119,649	**15,375**	8,911
Malaysia	**11,741**	12,861	**822**	739
Consolidated total	**756,605**	718,230	**252,130**	235,637

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 deposits.

5. TURNOVER

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages	**709,785**	677,293
Sales of skincare and wellness products	**46,820**	40,937
	756,605	718,230

6. OTHER INCOME

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Commission income	**1,361**	3,583
Government grant income	**15**	97
Magazine subscription income	**91**	102
Gain on revaluation of investment properties	**900**	12,600
Foreign exchange gains, net	**—**	4,229
Other income	**1,222**	476
	3,589	21,087

7. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Finance lease charges	**3**	3
Interest on convertible note wholly repayable within five years	**318**	—
	321	3

8. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Current tax — Hong Kong Profits Tax		
— Provision for the year	**7,209**	3,630
— Over-provision in prior years	**(76)**	(3,340)
	7,133	290
Current tax — Overseas		
— Provision for the year	**3,058**	11,256
— Under-provision in prior years	**21**	(28)
	3,079	11,228
Deferred tax	**9,008**	6,710
	19,220	18,228

Hong Kong Profits Tax is provided at 16.5% (2011: 16.5%) based on the assessable profits for the year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

No provision for PRC enterprise income tax has been made for the year ended 31 March 2012 (2011: 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 FOR THE YEAR

Profit for the year is stated after charging the following:

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Auditors' remuneration	**2,387**	1,742
Depreciation	**31,162**	43,908
Direct operating expenses of investment properties that did not generate rental income	**74**	53
Foreign exchange loss	**3,356**	—
Impairment loss on amount due from a related company	**—**	375
Operating lease charges for land and buildings	**115,028**	114,994
Loss on disposals of property, plant and equipment	**243**	—

10. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Interim dividend of HK3.38 (2011: HK1.4) cents per ordinary share	**24,455**	10,129
2011 final dividend of HK2.88 cents per ordinary share	**—**	20,837
2012 proposed final dividend of HK4.25 cents per ordinary share	**37,145**	—
	61,600	30,966

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Earnings for the purpose of calculating basic earnings per share	**82,151**	89,206
Finance costs saving on conversion of convertible note outstanding	**318**	—
Earnings for the purpose of calculating diluted earnings per share	**82,469**	89,206

	2012	2011
Number of shares		
Issued ordinary shares at 1 April	**723,520,000**	723,520,000
Effect of conversion of convertible note	**10,689,565**	—
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**734,209,565**	723,520,000
Effect of dilutive potential ordinary shares arising from convertible note outstanding	**42,003,643**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**776,213,208**	723,520,000

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2012 *HK$'000*	2011 *HK$'000* (Restated)
Non-current assets		
Rental and other deposits	**23,032**	18,494
Current assets		
Trade receivables	**51,915**	47,195
Trade deposits retained by banks and credit card companies *(Note)*	**125,953**	87,952
Rental and other deposits, prepayments and other receivables	**39,248**	41,982
Amounts due from related companies	**350**	90
	217,466	177,219
	240,498	195,713

Note: Trade deposits represent trade receivables that were retained by the banks/credit card companies in reserve accounts to secure the Group's performance of services to customers who paid for the services by 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 180 days (2011: 150 days) from the date of billings.

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

	2012 *HK$'000*	2011 *HK$'000* (Restated)
0 – 30 days	**24,292**	22,918
31 – 60 days	**12,200**	8,795
61 – 90 days	**10,581**	10,621
91 – 150 days	**3,991**	4,021
Over 150 days	**851**	840
	51,915	47,195

As of 31 March 2012, trade receivables of approximately HK$1,801,000 are past due but not impaired (2011: HK$2,517,000). 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:

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
0 – 30 days	**598**	791
31 – 60 days	**301**	188
61 – 90 days	**74**	402
91 – 150 days	**—**	308
Over 150 days	**828**	828
	1,801	2,517

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

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Hong Kong dollars ("HK$")	**50,474**	45,740
Singapore dollars ("S$")	**994**	814
Ringgit Malaysia ("RM")	**341**	559
Renminbi ("RMB")	**106**	82
Total	**51,915**	47,195

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

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Trade payables	**1,276**	640
Other payables, deposits received and accrued expenses	**71,024**	65,738
Amount due to a related party	**—**	835
Amount due to ultimate controlling party	**2**	2
Amounts due to related companies	**110**	379
	72,412	67,594

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

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Within 90 days	**1,142**	634
Over 90 days	**134**	6
	1,276	640

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

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
HK$	**669**	397
S$	**527**	140
RM	**48**	29
RMB	**32**	74
	1,276	640

14. DEFERRED REVENUE

An ageing analysis of the deferred revenue is as follows:

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Within 1 year	**516,355**	407,366
More than 1 year but within 2 years	**63,423**	103,027
More than 2 years but within 3 years	**68,845**	57,234
	648,623	567,627

Movement of deferred revenue:

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
At beginning of year	**567,627**	514,991
Gross receipts for sales of prepaid beauty packages	**790,034**	722,949
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(709,785)**	(677,293)
Exchange differences	**747**	6,980
At end of year	**648,623**	567,627

OVERVIEW

For the year ended 31 March 2012 ("FY2012" or the "year under review"), the turnover amounted to approximately HK$756.6 million, representing an increase of about 5.3% as compared to approximately HK$718.2 million for the year ended 31 March 2011 ("FY2011" or "same period last year"). Growth was seen in both beauty and wellness services and sales of related products. The receipts from sales of prepaid beauty packages during the year under review was HK$790.0 million, with an increase of 9.3% over last year. With the inflation and business expansion of the Group, the employees benefit expenses increased by 6.8% to HK$366.8 million. Occupancy costs remained at approximately HK$115.0 million, similar to that of the same period last year.

During the year under review, operating profit decreased to HK$100.7 million from HK$107.0 million in 2011. Furthermore, the profit for the year attributable to owners of the Company was HK$82.2 million, representing a decrease of 7.9% as compared to HK$89.2 million for the corresponding period of last year. The decrease was mainly resulted from the one-off administrative cost incurred from the acquisition of the Zegna Group and the foreign exchange loss for the year. Basic earnings per share of the Group during the year under review was HK11.19 cents as compared with HK12.33 cents in the same period last year.

Business Review — Hong Kong

The flourishing economy and rising domestic demand in the Mainland China during the year under review led a strong sentiment for the retail sales in Hong Kong. Coupled with the growing number of professional females in Hong Kong, beauty and wellness have gradually become the daily necessities with an ever-increasing demand. In response to the change of social trend, there were also changes to the Group's business model of beauty and wellness services. With the increasing consumption power of customers in recent years and fast pace of life, the Group captured the opportunity to provide high value-added and more efficient and effective beauty and wellness services. During the year under review, revenue from services and receipts for prepaid beauty packages were HK$578.2 million and HK$611.5 million respectively (2011: HK$519.4 million and HK$557.7 million), representing increase of 11.3% and 9.6% respectively. The significant revenue increase has proven the right strategy adopted by the Group in business adjustment.

Moreover, as customers are increasingly interested in high-quality beauty and wellness services, the Group has all along made effort to enhance the brand name of the Group by improving the professional standards of our team, coupled with advanced and newly equipped beauty facilities. In order to increase our market shares, the Group will also take into account the market demand to provide customers with more anti-aging and aesthetic services.

During the year under review, the Group maintained 29 beauty and spa service centres with a total gross floor area of approximately 258,000 square feet. The Group has changed the use of certain area for yoga or spa to higher yielding beauty services, in order to improve the effectiveness of operating area.

In terms of the sales of skincare and wellness products, as of 31 March 2012, the Group has a total of 16 stores under the names of “p.e.n”, “be Beauty Shop” and “FERRECARE Concept Store”, scattering across Hong Kong, Kowloon and New Territories. Those stores primarily sell high-quality skincare and wellness products under self-owned brands of “p.e.n”, “be” and “FERRECARE and renowned foreign brands in which we have distribution rights. We now offer more than 80 varieties of products to customers. Our customers are highly satisfied with our products as the Group has imposed strict requirements on the products to be sold and in which we have distribution rights, coupled with the professional advice provided by our staff who has received comprehensive training on product knowledge. Revenue from sales of skincare and wellness products increased from HK$33.4 million in 2011 to HK$38.2 million in 2012.

Business Review — Mainland China

The Group operates a total of ten beauty and wellness services centres in the Mainland China through three wholly-owned subsidiaries established in Beijing, Shanghai and Guangzhou in China. During the year under review, our Mainland China operations have successfully turned around from loss into profit due to active and stringent implementation of quality control measures and decreased rental expenses as well as growing turnover.

The Mainland China market is huge and full of opportunities though there is fierce competition. With the continued economic growth of China, the Group’s target customer base, including domestic professionals with high consumption power and the more affluent middle class, is further expanded. These customers are keen on these beauty services providers who can provide quality services and has secured a proven brand name.

The cost control imposed by the Group did not exert significant pressure on our business operation in the Mainland China. On the contrary, by virtue of the quality services provided by the Group’s professional team, the brand name of the Group has secured a presence in the Mainland China, thereby the Group’s turnover in the Mainland China during the year under review increased to HK$36.1 million (2011: HK$32.9 million) and receipts from sales of prepaid beauty packages increased by 10.7% to HK$34.9 million as compared to HK$31.5 million for the same period last year. The overall business recorded a profit of HK$0.7 million during the year under review from a loss of HK$2.1 million for the same period last year.

Business Review — Southeast Asia

During the year under review, the Group has successfully expanded its operating territory to Singapore and Malaysia through acquisitions. Currently, the Group has a total of ten and three beauty and wellness services centres in Singapore and Malaysia respectively. During the year under review, the turnover from operations in Singapore and Malaysia was HK$104.1 million, bringing the Group a profit of HK$11.7 million. Revenue from services rendered and receipts from sales of prepaid beauty packages amounted to HK$96.7 million and HK$146.5 million respectively. As the Group’s operations in Southeast Asia is at its early stage, we will continue to provide quality services to build up local customer’s confidence in the Group and a sound brand name. At the same time, the Group will also expand its sales network of skincare and wellness products through the above acquired beauty service centres.

OPERATIONAL HIGHLIGHTS

Project in Tsim Sha Tsui

Regarding the en-block building property at No. 5 Minden Avenue, Tsim Sha Tsui acquired by the Group in 2009, the future plan is now being reconsidered by the management due to the recent uncertain factors caused by the European market. The management does not rule out the possibility of disposal of the property if being offered a reasonable price.

FINANCIAL REVIEW

Turnover

During the year ended 31 March 2012, turnover increased by HK$38.4 million or 5.3% to HK$756.6 million. The contribution and the driving force to the growth of the turnover were mainly attributable to the beauty and facial care and slimming services.

Set out below is a breakdown on the turnover of the Group by service lines and product sales during FY2012 (with comparative figures for FY2011):

	For the year ended 31 March				
	2012		2011		
Sales mix	***HK$'000***	**Percentage of turnover**	*HK$'000*	Percentage of turnover	Change
Beauty and facial	**557,791**	**73.7%**	501,860	69.9%	+11.1%
Slimming	**113,282**	**15.0%**	114,491	15.9%	–1.1%
Spa and massage	**35,312**	**4.7%**	53,868	7.5%	–34.4%
Fitness	**3,400**	**0.4%**	7,074	1.0%	–51.9%
Beauty and wellness services	**709,785**	**93.8%**	677,293	94.3%	+4.8%
Sales of skincare and wellness products	**46,820**	**6.2%**	40,937	5.7%	+14.4%
Total	**756,605**	**100.0%**	718,230	100.0%	+5.3%

During the year under review, thanks to the substantial improvement of the economic environment, the increased customer spending, the provision of high value-added services by the Group and our correct positioning in the beauty industry in Hong Kong, the turnover from beauty and facial service line increased by 11.1% to HK$557.8 million (2011: HK$501.9 million). As the Group allocated more resources to the promotion of beauty and facial services than those to the slimming services this year as compared to last year, the Group's turnover from slimming services slightly decreased 1.1% from HK$114.5 million in 2011 to HK$113.3 million in 2012.

During the year under review, the Group allocated more resources on various channels, including placing advertisements on magazines, internet and television, so as to expand the customer coverage. In order to enhance the operation efficiency, the Group developed an Electronic Signature Verification System during the year under review, allowing the customers to have booking on demand for beauty and facial treatment at any time. Thanks to the trust and support from the customers towards our provision of beauty and wellness services over the years, together with effective marketing strategies and diversified services, the receipts from sales of prepaid beauty packages amounted to HK$790.0 million during the year under review, representing an increase of 9.3% as compared to HK$722.9 million for the same period last year.

Set out below is an analysis on the deferred revenue:

	For the year ended 31 March							
	2012				2011			
Movement of deferred revenue	**Hong Kong**	**Mainland China**	**South East Asia (Singapore and Malaysia)**	**Total**	Hong Kong	Mainland China	South East Asia (Singapore and Malaysia)	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Beginning of the year	**393,662**	**20,033**	**153,932**	**567,627**	355,376	21,189	138,426	514,991
Exchange differences	**—**	**297**	**450**	**747**	—	236	6,744	6,980
Receipts from sales of prepaid beauty packages	**611,467**	**32,041**	**146,526**	**790,034**	557,710	30,124	135,115	722,949
Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages	**(578,212)**	**(34,874)**	**(96,699)**	**(709,785)**	(519,424)	(31,516)	(126,353)	(677,293)
End of the year	**426,917**	**17,497**	**204,209**	**648,623**	393,662	20,033	153,932	567,627

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. During the year under review, employees benefit expenses increased by about 6.8% from HK$343.2 million in 2011 to approximately HK$366.8 million, which was attributable to the continuous growth of our operations and our dedication to improve the remuneration of the staff in order to attract and retain the talents.

The Group's remuneration policies are in line with the prevailing market practices and are determined based on individual performance and experience. The Group has constantly reviewing staff remuneration to ensure 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 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 bonus in recognition of their contribution. Employees benefit expenses accounted for 48.5% of our turnover, as compared to 47.8% in 2011.

Occupancy costs

The Group has a total of 39 service centres in the Mainland China and Hong Kong for the year ended 31 March 2012, with a total weighted average gross floor area of 308,000 square feet, a decrease of 2.2% as compared to 315,000 square feet in 2011.

During the year under review, the Group completed the acquisition of Zegna Group, which had a total of 10 and 3 beauty service centres in Singapore and Malaysia respectively as of 31 March 2012, with an aggregate total gross floor area of approximately 24,000 square feet and 8,900 square feet respectively. The occupancy costs in Singapore and Malaysia amounted to approximately HK$13.5 million (2011: HK$12.9 million) in 2012, accounting for approximately 13.0% (2011: 9.8%) of our turnover from the businesses in Singapore and Malaysia.

Depreciation

As some of services centres have been in operation for years, certain assets acquired when those services centres opened for business, such as leasehold improvements, beauty machines and fixtures of services centres, were completely depreciated, resulting in the decrease of depreciation cost for the year under review to HK$31.2 million, or 29.0%, as compared to that for the same period of last year.

Other operating expenses

Other operating expenses mainly include bank charges, advertising costs, utilities and building management fees. Bank charges rose by 17.0% to HK$36.9 million, which was 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 HK$11.1 million, as compared to HK$10.9 million for the same period last year. During the year ended 31 March 2012, the percentage of advertising costs to turnover remained at 1.5%, similar to that of the same period last year, demonstrating the continuous enhancement of our marketing effectiveness and the sound reputation of the Group in the beauty industry.

Profit and Profit Margin

Profit for the year decreased to approximately HK$82.1 million from approximately HK$89.3 million in 2011. Furthermore, profit for the year attributable to owners of the Company also decreased to approximately HK$82.2 million from approximately HK$89.2 million in 2011. Profit margin decreased from 12.4% in 2011 to 10.9% for the year under review. Both decreases were mainly resulted from the Group's efforts on the expansion of our service network in Southeast Asia, which resulted in additional costs incurred for the year, among others, the one-off costs for developing new local business network. Developing new business network will be beneficial to the long-term growth of the Group. At the same time, the Group will continue to control its costs by different means so as to maintain its net margin. Basic earnings per share for the year was HK11.19 cents as compared to the earnings per share of HK12.33 cents for the same period last year.

Dividend per share

The Board recommended payment of a final dividend of HK4.25 cents per share subject to approval of the shareholders of the Company at the forthcoming Annual General Meeting. Together with the interim dividend of HK3.38 cents paid during the year, the total dividend for the year ended 31 March 2012 will be HK7.63 cents per share. This indicates an approximately 75% dividend payout ratio of the current year profit.

Liquidity, financial resources and capital structure

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. During the year under review, we maintained a strong financial position with abundant cash and bank balances of approximately HK$484.4 million (2011: HK$449.5 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. During the year under review, except for the fund required for operation, the majority of the Group's cash was held in fixed and savings deposits as in line with the Group's prudent treasury policy.

Capital Expenditure

The total capital expenditure of the Group during the year under review was HK$47.1 million, as compared to HK$23.4 million for the same period last year. The amount was mainly used for the additions of leasehold improvements, motor vehicles and equipment and machinery in connection with the expansion of its service network in Hong Kong and Southeast Asia.

Contingent Liabilities and Capital Commitment

The Board considered that there was no material contingent liabilities as at 31 March 2012. The Group had capital commitment of HK$12.4 million as at 31 March 2012 (31 March 2011: HK$15.0 million), mainly for the acquisition of plant and equipment.

Charges on Assets

As at 31 March 2012, the Group had pledged bank deposits of HK$7.1 million (31 March 2011: HK$7.2 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

Foreign Exchange Risk Exposures

The Group's sales and purchases were mainly denominated in Hong Kong Dollars. However, the continuous appreciation of Renminbi has exerted relative pressures on the Group's operating costs in Mainland China. The management will closely monitor the risk exposures faced by the Group, and will take the necessary actions to properly hedge such exposures.

Treasury Policies

The Group adopts a prudent approach in its treasury policy. The Group's surplus funds are held under fixed and savings deposits in reputable banks to earn interest income at an annualized yield of approximately 0.2%. During the period under review, the Group did not have any other security or capital investments, derivative investments, or hedging for foreign currencies.

Human Resources and Training

The Group had a workforce of 1,879 staff as at 31 March 2012 (31 March 2011: 1,779 staff), including 1,306 front-line service centre staff in Hong Kong, 121 in Mainland China and 230 in Southeast Asian regions (Singapore and Malaysia). Back office staff totaled 163 in Hong Kong, 24 in Mainland China and 35 in Southeast Asian regions. Total employee benefits expenses including directors' emoluments for the year under review amounted to HK$366.8 million, representing a 6.8% increase as compared to HK$343.2 million in 2011.

The Group reviews its remuneration policies on a regular basis with reference to the legal framework, market conditions and performance of the Group and individual employees. The Remuneration Committee also reviews the remuneration policies and packages of executive directors and the senior management. In addition, share options and discretionary bonus are granted to eligible employees based on the the Group's results and individual performance of the employees. On 20 January 2006, the Group adopted the share option scheme. As at 31 March 2012, a total of 6,680,000 share options have been granted to certain directors, senior management and employees of the Group. Pursuant to the remuneration policies of the Group, employees' remunerations comply with the legal requirements of all jurisdictions in which we operate, and are in line with the market rates.

For the purpose of enhancing core skills of our staff members, the Group regularly organizes training programs. Some of the seminars are conducted by the senior management of the Group, which facilitate mutual communications between the senior management and the general staff. At the same time, our staff is encouraged to participate in training programs and talks which directly or indirectly relate to the Group's business, so as to enhance the service skills of our employees.

Corporate Social Responsibility

Not only we devote ourselves for reasonable return for shareholders, but also contribute to the social and economic development of the society and communities in which we operate through managing our environmental impact in the course of operation. As our efforts to make the working environment healthier and greener, the Group has specific policies stipulating how to minimize the use of air conditioning and reduce our water consumption at service centres.

We took part in the sponsorship of the 4th Hong Kong Yogathon as the co-sponsor during the year under review. Participants who made extra donations would receive a complimentary beauty treatment from “Modern Beauty Salon”.

OUTLOOK

Under the continuous economic uncertainties in Europe and the United States, coupled with China announcing a slowdown for economic growth, the retail and consumption sentiment may be adversely affected, which may in turn affect the performance of beauty and wellness services industry and its product sales. However, the Group has been actively controlling the operating costs as well as focusing on the maintenance of a healthy cash status. Therefore, despite the changes and challenges in the business environment, we are still cautiously optimistic about the performance of the Group in the coming year.

We understand that professional and caring services as well as reliable and quality products are essential to maintaining a steady business growth. In view of this, the Group will continue to provide our front-line staff with professional training and impose strict quality control on the products to be sold and distributed, for safeguarding the health and safety of our customers as well as consolidating and promoting the brand name of the Group.

Hong Kong Market

As the beauty and wellness services industry in Hong Kong is becoming mature, more demands emerge for high-quality services. In face of the changes in market needs for services, the Group will not only maintain a quality service, but also respond quickly, adjust the business model and invest appropriate resources, so as to provide diversified, efficient and effective services, further consolidate business shares and expand market shares. What’s more, we target to strengthen customers’ confidence and loyalty in us. Along with the rumor of radioactive contamination in Japanese products, customers in Hong Kong are becoming more interested in the skincare and wellness products originated from Europe. Since the Group has always promoting quality skincare and wellness products from Europe, which are well received by customers, we are confident in the prospect of our Group’s product sales. We have also planned to seize the opportunity of expanding our market shares through the expansion of the retail network and the increase of distribution rights of our brands and products.

Mainland China Market

As the Chinese government has dedicated to boosting the domestic demand market and the income per capita has kept its upward trend, the demand for beauty and wellness services are on the rise accordingly. The Group will continue to develop its markets in Mainland China, particularly promoting the business development in second and third tier cities, in order to capture the proper opportunities and expand our business network by upholding its franchise business strategy and acquiring beauty business.

Singapore and Malaysia markets

The beauty business in Singapore and Malaysia acquired during the year has been operating smoothly. We will continue to enhance its business quality and effectiveness, so as to become one of the major income sources of the Group.

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

During the year ended 31 March 2012, 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 Annual General Meeting of the Company is scheduled on Tuesday, 28 August 2012. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Saturday, 25 August 2012 to Tuesday, 28 August 2012, both days inclusive, during which period no transfer of share will be effected. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 24 August 2012.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the Annual General Meeting. The record date for entitlement to the proposed final dividend is 5 September 2012. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 3 September 2012 to Wednesday, 5 September 2012, both days inclusive, during which period no transfer of share will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Friday, 31 August 2012. The payment of final dividend will be made on Monday, 24 September 2012.

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 2012, the Company has complied with the Corporate Governance Code (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 "Chairperson and Chief Executive Officer" below.

Chairperson and Chief Executive Officer

During the year under review, Ms. Tsang Yue, Joyce ("Ms. Tsang") has been both the Chairperson and Chief Executive Officer of the Company. Code provision A.2.1 of the Code stipulates that the role of chairperson 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 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. All Audit Committee members possess appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules. During the year under review, the Audit Committee met three times and the work performed by the Audit Committee is summarized as follows:

a. approval of the remuneration and terms of engagement of the external auditor;

b. review of the external auditor's independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

c. review of the interim and annual financial statements before submission to the Board;

d. discussion with the external auditor before the audit commences, the nature and scope of the audit;

e. review of the audit programme of the internal audit function; and

f. and risk management systems.

The Audit Committee has reviewed and approved the Group's annual results for the year ended 31 March 2012 in conjunction with the Company's auditor 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 27 July 2012 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, 27 June 2012

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.