# 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 2013

## FINANCIAL HIGHLIGHTS

Gross receipts from sales of prepaid beauty packages decreased from approximately HK$790.0 million in FY2012 to approximately HK$764.2 million in FY2013, representing a slight drop of approximately 3.3%.

Group's turnover decreased by 6.4% from approximately HK$756.6 million in FY2012 to approximately HK$708.1 million in FY2013.

Revenue from Singapore and Malaysia increased from approximately HK$104.1 million in FY2012 to approximately HK$141.2 million in FY2013, representing an increase of approximately 35.6%.

During the year under review, the Group recorded a loss of around HK$53.4 million.

The Board recommended the payment of a special dividend of HK4.0 cents per ordinary share for the year under review.

## OPERATIONAL HIGHLIGHTS

The Group operated a total of 42 service centres in Mainland China and Hong Kong with a total weighted average gross floor area of approximately 309,100 square feet.

In Southeast Asian region, the Group had 15 and 3 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 26,000 square feet and approximately 8,900 square feet respectively.

Customer number in Hong Kong and Singapore reached approximately 321,900 and 92,300 respectively.

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 2013 ("FY2013" or the "year under review"), with comparative figures for the year ended 31 March 2012 ("FY2012") as follows. The annual results for the year ended 31 March 2013 have been reviewed by the audit committee of the Company.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2013

| | Note | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **Turnover** | 5 | **708,122** | 756,605 |
| Other income | 6 | **1,784** | 2,689 |
| Cost of inventories sold | | **(29,033)** | (19,301) |
| Advertising costs | | **(12,331)** | (11,093) |
| Building management fees | | **(19,128)** | (15,275) |
| Bank charges | | **(35,776)** | (36,864) |
| Employee benefit expenses | | **(397,471)** | (366,753) |
| Depreciation | | **(30,977)** | (31,162) |
| Occupancy costs | | **(156,104)** | (115,028) |
| Other operating expenses | | **(74,110)** | (64,035) |
| **Operating (loss)/profit** | | **(45,024)** | 99,783 |
| Interest income | | **1,961** | 995 |
| Finance costs | 7 | **(620)** | (321) |
| Fair value changes on investment properties | | **(14,300)** | 900 |
| **(Loss)/profit before tax** | | **(57,983)** | 101,357 |
| Income tax credit/(expense) | 8 | **4,549** | (19,220) |
| **(Loss)/profit for the year** | 9 | **(53,434)** | 82,137 |
| **Other comprehensive (loss)/income for the year, net of tax:** | | | |
| Exchange differences on translating foreign operations | | **(769)** | 1,234 |
| **Total comprehensive (loss)/income for the year** | | **(54,203)** | 83,371 |
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of the Company | | **(53,431)** | 82,151 |
| Non-controlling interests | | **(3)** | (14) |
| | | **(53,434)** | 82,137 |

| | Note | **2013** *HK$'000* | 2012 *HK$'000* |
|---|---|---|---|
| **Total comprehensive (loss)/income for the year attributable to:** | | | |
| Owners of the Company | | **(54,200)** | 83,385 |
| Non-controlling interests | | **(3)** | (14) |
| | | **(54,203)** | 83,371 |
| **(Loss)/earnings per share (HK cents)** | *11* | | |
| — Basic | | **(6.11)** | 11.19 |
| — Diluted | | **(6.11)** | 10.62 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AT 31 MARCH 2013

| | *Note* | **2013** *HK$'000* | 2012 *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **133,724** | 75,830 |
| Investment properties | | **–** | 176,300 |
| Deposits | *12* | **22,264** | 23,032 |
| Deferred tax assets | | **24,191** | 13,662 |
| | | **180,179** | 288,824 |
| **Current assets** | | | |
| Inventories | | **19,293** | 13,159 |
| Trade and other receivables, deposits and prepayments | *12* | **245,390** | 217,466 |
| Current tax assets | | **17,992** | 7,728 |
| Pledged bank deposits | | **47,162** | 7,141 |
| Cash and bank balances | | **481,249** | 484,426 |
| | | **811,086** | 729,920 |
| **Total assets** | | **991,265** | 1,018,744 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | | **87,400** | 87,400 |
| Reserves | | **57,981** | 184,678 |
| Equity attributable to owners of the Company | | **145,381** | 272,078 |
| Non-controlling interests | | **62** | 65 |
| **Total equity** | | **145,443** | 272,143 |

| | Note | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Finance lease payables | | **–** | 18 |
| Convertible note | | **3,316** | 4,538 |
| | | **3,316** | 4,556 |
| **Current liabilities** | | | |
| Trade and other payables, deposits received and accrued expenses | *13* | **83,973** | 72,412 |
| Deferred revenue | *14* | **747,614** | 648,623 |
| Finance lease payables | | **18** | 19 |
| Convertible note | | **3,680** | 2,738 |
| Current tax liabilities | | **7,221** | 18,253 |
| | | **842,506** | 742,045 |
| **Total liabilities** | | **845,822** | 746,601 |
| **Total equity and liabilities** | | **991,265** | 1,018,744 |
| **Net current liabilities** | | **(31,420)** | (12,125) |
| **Total assets less current liabilities** | | **148,759** | 276,699 |

## 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.

## 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 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; 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.

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

## 4. SEGMENT INFORMATION

The Group has two reportable segments as follows:

| | | |
|---|---|---|
| Beauty and wellness services | — | Provision of beauty and wellness services |
| Skincare and wellness products | — | Sales of skincare and wellness products |

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include other income, interest income, finance costs, fair value changes on investment properties, unallocated costs, which comprise corporate administrative expenses, and income tax credit/expense. Segment assets do not include investment properties, properties held for corporate uses, deferred tax assets and current tax assets. Segment liabilities do not include current tax liabilities, convertible note, amounts due to related companies and amount due to ultimate controlling 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 2013** | | | |
| Revenue from external customers | **667,341** | **40,781** | **708,122** |
| Inter-segment revenue | **–** | **26,942** | **26,942** |
| Segment (loss)/profit | **(21,145)** | **11,960** | **(9,185)** |
| *Other segment information:* | | | |
| Additions to non-current assets | **82,467** | **6,170** | **88,637** |
| Depreciation | **26,500** | **4,477** | **30,977** |
| **As at 31 March 2013** | | | |
| Segment assets | **917,969** | **6,431** | **924,400** |
| Segment liabilities | **818,596** | **12,920** | **831,516** |

| | 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 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit or loss:** | | |
| Total (loss)/profit of reportable segments | **(9,185)** | 130,656 |
| Other income | **1,784** | 2,689 |
| Interest income | **1,961** | 995 |
| Finance costs | **(620)** | (321) |
| Fair value changes on investment properties | **(14,300)** | 900 |
| Corporate administrative expenses | **(37,623)** | (33,562) |
| Income tax credit/(expense) | **4,549** | (19,220) |
| Consolidated (loss)/profit for the year | **(53,434)** | 82,137 |
| **Assets:** | | |
| Total assets of reportable segments | **924,400** | 821,054 |
| Investment properties | **–** | 176,300 |
| Properties held for corporate uses | **24,682** | – |
| Deferred tax assets | **24,191** | 13,662 |
| Current tax assets | **17,992** | 7,728 |
| Total assets | **991,265** | 1,018,744 |
| **Liabilities:** | | |
| Total liabilities of reportable segments | **831,516** | 720,960 |
| Current tax liabilities | **7,221** | 18,253 |
| Convertible note | **6,996** | 7,276 |
| Amounts due to related companies | **87** | 110 |
| Amount due to ultimate controlling party | **2** | 2 |
| Total liabilities | **845,822** | 746,601 |
| **Other information:** | | |
| Total additions to non-current assets of reportable segments and consolidated additions | **88,637** | 47,101 |
| Total depreciation of reportable segments and consolidated depreciation | **30,977** | 31,162 |

Geographical information:

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **527,925** | 616,426 | **109,420** | 233,487 |
| Mainland China | **38,966** | 36,124 | **5,392** | 2,446 |
| Singapore | **127,710** | 92,314 | **17,994** | 15,375 |
| Malaysia | **13,521** | 11,741 | **918** | 822 |
| Consolidated total | **708,122** | 756,605 | **133,724** | 252,130 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue recognised from provision of beauty and wellness services and expiry of prepaid beauty packages | **667,341** | 709,785 |
| Sales of skincare and wellness products | **40,781** | 46,820 |
| | **708,122** | 756,605 |

## 6. OTHER INCOME

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Commission income | **463** | 1,361 |
| Government grant income | **75** | 15 |
| Gain on disposals of property, plant and equipment | **108** | – |
| Magazine subscription income | **51** | 91 |
| Foreign exchange gains, net | **215** | – |
| Other income | **872** | 1,222 |
| | **1,784** | 2,689 |

## 7. FINANCE COSTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Finance lease charges | **2** | 3 |
| Interest on convertible note wholly repayable within five years | **618** | 318 |
| | **620** | 321 |

## 8. INCOME TAX (CREDIT)/EXPENSE

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Current tax — Hong Kong Profits Tax | | |
| — Provision for the year | **54** | 7,209 |
| — Under/(over) provision in prior years | **3** | (76) |
| | **57** | 7,133 |
| Current tax — Overseas | | |
| — Provision for the year | **7,191** | 3,058 |
| — (Over)/under provision in prior years | **(1,257)** | 21 |
| | **5,934** | 3,079 |
| Deferred tax | **(10,540)** | 9,008 |
| | **(4,549)** | 19,220 |

Hong Kong Profits Tax is provided at 16.5% (2012: 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.

The new PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007 introduced various changes which included the unification of the enterprise income tax rate for domestic and foreign enterprises at 25%. The new tax law was effective from 1 January 2008.

No provision for PRC enterprise income tax has been made for the year ended 31 March 2013 (2012: 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. (LOSS)/PROFIT FOR THE YEAR

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

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Auditors' remuneration | | |
| — Current | **2,166** | 2,387 |
| — Over-provision in prior year | **(166)** | – |
| | **2,000** | 2,387 |
| Depreciation | **30,977** | 31,162 |
| Direct operating expenses of investment properties that did not generate rental income | **33** | 74 |
| Foreign exchange loss, net | **–** | 3,356 |
| Operating lease charges for land and buildings | **156,104** | 115,028 |
| Loss on disposals of property, plant and equipment | **–** | 243 |

## 10. DIVIDENDS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interim dividend of HK3.0 cents (2012: HK3.38 cents) per ordinary share | **26,219** | 24,455 |
| Special dividend of HK1.1 cents (2012: Nil) per ordinary share | **9,614** | – |
| 2012 final dividend of HK4.25 cents per ordinary share | **–** | 37,145 |
| 2013 proposed special dividend of HK4.0 cents per ordinary share | **34,960** | – |
| | **70,793** | 61,600 |

## 11. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the following:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(Loss)/earnings** | | |
| (Loss)/earnings for the purpose of calculating basic (loss)/earnings per share | **(53,431)** | 82,151 |
| Finance costs saving on conversion of convertible note outstanding | **618** | 318 |
| (Loss)/earnings for the purpose of calculating diluted (loss)/earnings per share | **(52,813)** | 82,469 |

| | **2013** | 2012 |
|---|---|---|
| **Number of shares** | | |
| Issued ordinary shares at 1 April | **873,996,190** | 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 | **873,996,190** | 734,209,565 |
| Effect of dilutive potential ordinary shares arising from convertible note outstanding | **87,619,048** | 42,003,643 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **961,615,238** | 776,213,208 |

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 March 2013.

## 12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Non-current assets** | | |
| Rental and other deposits | **22,264** | 23,032 |
| **Current assets** | | |
| Trade receivables | **60,462** | 51,915 |
| Trade deposits retained by banks and credit card companies *(Note)* | **134,738** | 125,953 |
| Rental and other deposits, prepayments and other receivables | **49,954** | 39,248 |
| Amounts due from related companies | **236** | 350 |
| | **245,390** | 217,466 |
| | **267,654** | 240,498 |

*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 (2012: 180 days) from the date of billings.

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0–30 days | **26,953** | 24,292 |
| 31–60 days | **9,226** | 12,200 |
| 61–90 days | **10,396** | 10,581 |
| 91–180 days | **12,197** | 3,991 |
| Over 180 days | **1,690** | 851 |
| | **60,462** | 51,915 |

As of 31 March 2013, trade receivables of approximately HK$3,082,000 are past due but not impaired (2012: HK$1,801,000). 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:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0–30 days | **2,009** | 598 |
| 31–60 days | **76** | 301 |
| 61–90 days | **116** | 74 |
| 91–150 days | **15** | – |
| Over 150 days | **866** | 828 |
| | **3,082** | 1,801 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars ("HK$") | **58,241** | 50,474 |
| Singapore dollars ("S$") | **1,696** | 994 |
| Ringgit Malaysia ("RM") | **283** | 341 |
| Renminbi ("RMB") | **242** | 106 |
| Total | **60,462** | 51,915 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **911** | 1,276 |
| Other payables, deposits received and accrued expenses | **82,973** | 71,024 |
| Amount due to ultimate controlling party | **2** | 2 |
| Amounts due to related companies | **87** | 110 |
| | **83,973** | 72,412 |

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **886** | 1,142 |
| Over 90 days | **25** | 134 |
| | **911** | 1,276 |

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

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Australian dollars | **13** | – |
| European Euro | **85** | – |
| HK$ | **568** | 669 |
| S$ | **62** | 527 |
| RM | **10** | 48 |
| RMB | **14** | 32 |
| United States dollars | **159** | – |
| | **911** | 1,276 |

## 14. DEFERRED REVENUE

An ageing analysis of the deferred revenue is as follows:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within 1 year | **665,884** | 516,355 |
| More than 1 year but within 2 years | **42,424** | 63,423 |
| More than 2 years but within 3 years | **39,306** | 68,845 |
| | **747,614** | 648,623 |

Movement of deferred revenue:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At beginning of year | **648,623** | 567,627 |
| Gross receipts from sales of prepaid beauty packages | **764,210** | 790,034 |
| Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages | **(667,341)** | (709,785) |
| Exchange differences | **2,122** | 747 |
| At end of year | **747,614** | 648,623 |

## OVERVIEW

For the year ended 31 March 2013, turnover of the Group amounted to approximately HK$708.1 million under the impact of the series of beauty treatment incidents within the industry during the year, representing a decrease of 6.4% as compared to approximately HK$756.6 million for the year ended 31 March 2012 ("FY2012" or the "same period last year"). Stable performance 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$764.2 million, a decrease of 3.3% over last year. With the inflation and business expansion of the Group, the employees benefit expenses and occupancy costs increased by 8.4% and 35.7% to HK$397.5 million and HK$156.1 million respectively as compared with the same period last year. The Group recorded an operating loss of HK$45.0 million during the year under review (FY2012: operating profit of HK$99.8 million).

## BUSINESS REVIEW

*Hong Kong*

With an increase in the female working population in Hong Kong, beauty and wellness are garnering increased attention and have gradually become one of the daily necessities. There was a series of beauty treatment incidents within the industry during the year under review. As affected by media coverage, public awareness and consumers' concerns over the safety of beauty treatments rose during FY2013. Demands for premium and safe beauty and wellness services and products were also on the rise. With years of extensive experience in beauty and wellness services, the Group is dedicated to providing customers with safe and highly effective beauty and facial and wellness services, establishing itself as one of the leading beauty and wellness service brands in the industry with prolonged trust from customers. With increased demand in the society, our customers in Hong Kong amounted up to a total of approximately 321,900 during the year under review, representing an increase of 8.4% as compared to approximately 297,000 in the same period last year. This is a testament to the continuous enhancement of the Group's brand status, success in attracting new clienteles and prosperous business outlook.

Turnover for the year dropped by 14.4%. According to the accounting policies, deferred revenue is recognised when service treatments are delivered to customers or upon expiry of prepaid beauty packages. Hence, unrecognised deferred revenue for the year will be fully recognised in revenue in the upcoming financial years according to actual situations. Revenue from services rendered and receipts from prepaid beauty packages for the year were HK$494.7 million and HK$603.1 million respectively (2012: HK$578.2 million and HK$611.5 million).

In respect of costs, the implementation of statutory minimum wage together with inflation and rental increase put pressure on the operating costs. During the year under review, the lease term of the Group's certain beauty service centres in Hong Kong expired. The Group took the chance to integrate its beauty service centre network in Hong Kong through renewing leases of or relocating or merging existing centres, in order to exert better control on occupancy costs. In the long run, the Group believes that the integrated service centre network is not only cost-effective, but also more accessible for customers to enjoy our services, which will benefit the operations and development of the Group.

In order to keep up with the business development of product sales, during the year, the Group has established 5 new points of sale for "p.e.n" products to expand our sales coverage and further promote our products as well as consolidate our market position. The Group insists to exercise stringent quality control on the products sold and distributed by it. Coupled with the skincare advice provided by our professional staff, our products have garnered great support from our customers. During the year under review, the Group launched a new skincare and slimming product brand "Bioline". "Bioline" is positioned to be a high-end brand, with its products made in Italy and its quality have attained international standards. Through broadening sales network and launching new product brands, the Group is confident that it will persistently expand its customer coverage and increase profit contribution from product sales. Revenue from sales of skincare and wellness products was HK$33.3 million in FY2013 (FY2012: HK$38.2 million).

*Mainland China*

As at 31 March 2013, the Group operated a total of 9 beauty and wellness service centres in Mainland China through three wholly foreign-owned enterprises established in Beijing, Shanghai and Guangzhou in China respectively, with a total weighted average gross floor area of approximately 38,400 square feet. During the year under review, constant cost control did not exert significant pressure on our business operation in Mainland China. Meanwhile, quality services amplified local customers' confidence in the Group. Our brand status in the Mainland China market has gradually solidified.

The continued social and economic growth in Mainland China has boosted the market development of beauty and wellness services and resulted in increasingly keen competition in the industry. As the beauty and wellness service market develops, consumers tend to opt for beauty service providers who offer premium services with profound brand names. Riding on the experience of its team and the quality of services, turnover of the Group has been escalating alongside with its brand status in Mainland China. Together with the Group's persistent and proactive measures on stringent cost control, during the year under review, the Group's turnover in Mainland China increased to HK$39.0 million (FY2012: HK$36.1 million) and receipts from sales of prepaid beauty packages increased by 7.2% to HK$34.3 million as compared to HK$32.0 million for the same period last year. The overall business profit increased from HK$0.7 million for the same period last year to HK$1.7 million during the year.

*Southeast Asia*

In FY2012, the Group has successfully tapped into the Singapore and Malaysia markets through acquisitions. In response to the Group's expansion of the beauty and wellness service centre network in the regions, during the year under review, the Group has increased its number of service centres in Singapore by 5 to a total of 15, while the number of service centres in Malaysia remained unchanged at 3.

As the Group's business development in Southeast Asia is at its early stage, and the local economic growth was slow compared with other burgeoning markets like Mainland China, the Group will proceed with its local business development in a prudent and steady manner. We will continue to focus on the provision of quality services to lay a solid foundation for our local business, build up local customers' confidence in the Group and enhance our brand awareness. When the time is ripe, we will expand our sales business of skincare and wellness products through the local beauty and wellness service centre network. During the year under review, the turnover from operations in Singapore and Malaysia was HK$141.2 million, revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages and receipts from sales of prepaid beauty packages amounted to HK$135.0 million and HK$126.8 million respectively.

## FINANCIAL REVIEW

### Turnover

Set out below is a breakdown on the turnover of the Group by service lines and product sales during FY2013 (with comparative figures for FY2012):

| | **For the year ended 31 March** | | | | |
|---|---|---|---|---|---|
| | **2013** | | 2012 | | |
| **Sales mix** | ***HK$'000*** | **Percentage of turnover** | *HK$'000* | Percentage of turnover | Change |
| Beauty and facial | **520,953** | **73.6%** | 557,791 | 73.7% | -6.6% |
| Slimming | **103,899** | **14.6%** | 113,282 | 15.0% | -8.3% |
| Spa and massage | **41,640** | **5.9%** | 35,312 | 4.7% | +17.9% |
| Fitness | **849** | **0.1%** | 3,400 | 0.4% | -75.0% |
| Beauty and wellness services | **667,341** | **94.2%** | 709,785 | 93.8% | -6.0% |
| Sales of skincare and wellness products | **40,781** | **5.8%** | 46,820 | 6.2% | -12.9% |
| Total | **708,122** | **100.0%** | 756,605 | 100.0% | -6.4% |

The beauty industry in Hong Kong was affected by series of beauty treatment incidents. During the year under review, customers became more cautious on purchasing beauty and wellness services and products. To regain customers' confidence, the Group devoted additional resources to advertisement and promotion during the year under review, highlighting the Group's emphasis on providing safe and premium beauty and wellness services. Together with effective marketing strategies and diversified services as well as the rich experience of the Group, our business remained unaffected by the incidents within the industry. We not only gained support and trust from customers, but also attracted many customers ran off from other relatively low-quality peers, thereby expanding the customer coverage.

During the year under review, the Group reported that sales of new prepaid beauty packages are similar to that of FY2012, while cash and cash equivalents in hand were maintained at a healthy level. The Group's turnover from beauty and wellness services decreased by about 6.0% from approximately HK$709.8 million in FY2012 to approximately HK$667.3 million in the year under review.

Despite the turnover decreased during the year under review, sales of new prepaid beauty packages of the Group amounted to HK$764.2 million, representing a slight decrease of 3.3% compared with HK$790.0 million for the same period last year. This demonstrated that our business revenue remained stable.

Deferred revenue will be recognised and credited to turnover in the upcoming financial years according to actual situations.

Set out below is an analysis on the deferred revenue:

| | For the year ended 31 March | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | | | | 2012 | | | |
| **Movement of deferred revenue** | **Hong Kong** *HK$'000* | **Mainland China** *HK$'000* | **Singapore and Malaysia** *HK$'000* | **Total** *HK$'000* | Hong Kong *HK$'000* | Mainland China *HK$'000* | Singapore and Malaysia *HK$'000* | Total *HK$'000* |
| Beginning of the year | **426,917** | **17,497** | **204,209** | **648,623** | 393,662 | 20,033 | 153,932 | 567,627 |
| Exchange differences | **–** | **(112)** | **2,234** | **2,122** | – | 297 | 450 | 747 |
| Receipts from sales of prepaid beauty packages | **603,108** | **34,346** | **126,756** | **764,210** | 611,467 | 32,041 | 146,526 | 790,034 |
| Revenue recognised for provision of beauty and wellness services and expiry of prepaid beauty packages | **(494,661)** | **(37,660)** | **(135,020)** | **(667,341)** | (578,212) | (34,874) | (96,699) | (709,785) |
| End of the year | **535,364** | **14,071** | **198,179** | **747,614** | 426,917 | 17,497 | 204,209 | 648,623 |

## Employee benefit expenses

Employee benefit expenses (including staff's salaries and bonuses as well as directors' remunerations) represented the largest component of the Group's operating costs. The Group is dedicated to improve the remuneration of our staff in order to attract and retain talents. During the year under review, employee benefit expenses increased by about 8.4% from HK$366.8 million in FY2012 to approximately HK$397.5 million, which was attributable to inflation and the implementation of minimum wage by the government. Employee benefit expenses accounted for 56.1% of our turnover in FY2013, as compared to 48.5% for FY2012.

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

**Occupancy costs**

As of 31 March 2013, the Group operated a total of 42 service centres in Mainland China and Hong Kong with a total weighted average gross floor area of approximately 309,100 square feet, representing an increase of 0.3% as compared to 308,200 square feet in FY2012. Product sales points of the Group also increased to 22 during the year under review (FY2012: 17).

In respect of the Southeast Asian region, as of 31 March 2013, the Group had 15 and 3 beauty service centres in Singapore and Malaysia respectively, with a total weighted average gross floor area of approximately 26,000 square feet and approximately 8,900 square feet respectively (FY2012: approximately 22,900 square feet in total and approximately 8,900 square feet in total respectively). The Group's occupancy costs in FY2013 were approximately HK$156.1 million (FY2012: HK$115.0 million), accounting for approximately 22.0% of our turnover (FY2012: 15.2%).

The lease term of the Group's certain beauty service centres in Hong Kong expired during the year under review. The Group took the chance to integrate its beauty service centre network in Hong Kong. Integration of service network included renewing leases of or relocating or merging existing centres. The increase in occupancy costs during the year under review was mainly attributable to the rental rise under the new tenancy agreements conforming to the economic environment, as well as the extra rental costs incurred in the overlap of new and old tenancy agreements during the period of integration. Following the completion of the integration of service network, occupancy expenses of the Group realign with the market rates. The Group believes that the effective integration of its service centre network will help the Group control occupancy costs and fulfill the needs of customers, thereby increasing operating revenue.

**Depreciation**

Depreciation for the year under review was approximately the same as that for FY2012, which decreased 0.64% to HK$31.0 million. As some of the service centres have been in operation for years, certain assets acquired in commencement of service, such as leasehold improvements, beauty equipments and fixtures of service centres, were completely depreciated. The resulting decrease in depreciation charges offset the increased depreciation charges by additions of assets.

**Other operating expenses**

We classified bank charges, advertising costs, utilities and building management fees as other operating expenses. Bank charges recorded changes in line with sales of new prepaid beauty packages, which slightly decreased by 3.0% to HK$35.8 million. Advertising costs increased to HK$12.3 million from HK$11.1 million for the same period last year. During the year ended 31 March 2013, the percentage of advertising costs to total turnover was 1.7%. Despite the setback of the beauty treatment incidents in Hong Kong, the Group's successful promotional strategy has rendered its sound reputation in the beauty industry, success in attracting more customers and enhancement of our marketing effectiveness.

**(Loss)/profit for the year**

Overall inflation during the year under review has resulted in an increase in basic operating costs such as employee benefit expenses and occupancy costs. The one-off expenses from the Group's efforts in integrating our service centre network in Hong Kong during the year under review have further escalated our operating costs for the year. Owning to decrease in business revenue and increase in costs, the Group recorded a loss of approximately HK$53.4 million (FY2012: profit of approximately HK$82.1 million) and loss for the year under review attributable to owners amounted to approximately HK$53.4 million (FY2012: profit of approximately HK$82.2 million).

Integration of our service centre network in Hong Kong is beneficial to the long-term development of the Group. Such integration enables the Group to control its occupancy costs and contact with various customer bases, thus strengthening its marketing in every aspects. During the year under review, we managed to maintain the level of receipts from prepaid beauty packages and continously develop our business and the Group expects that its turnover will shortly return back on track. Meanwhile, the Group will continue to adopt various methods to control costs with the aim of maintaining our net profit margin, which has been affected by the aforementioned integration of service centre network, at its original level as well as achieving its long-term objective of steadily increasing its profit. Basic loss per share for the year under review was HK6.11 cents, as compared to basic earnings per share of HK11.19 cents for the same period last year.

**Dividend per share**

The Board recommended payment of a special dividend of HK4.0 cents per share subject to approval of the shareholders at the forthcoming Annual General Meeting. Together with the interim dividends of HK3.0 cents per share and special dividends of HK1.1 cents per share paid during the year under review, the total dividend paid for the year ended 31 March 2013 will be HK8.1 cents per share.

**Liquidity, financial resources and capital structure**

The Group generally finances its liquidity requirements through the receipts from sales of prepaid beauty packages and settlement of credit card prepayment transactions with banks. During the year under review, we maintained a strong financial position with abundant cash and bank balances of approximately HK$481.2 million (FY2012: HK$484.4 million) with no bank borrowings. Our cash is primarily used as working capital and to finance our normal operating expenses, as well as to pay for the purchase of skincare and wellness products, materials and consumable used in the provision of beauty and wellness services. During the period under review, except for the fund required for operation, the majority of the Group's cash was held under fixed and savings deposits as in line with the Group's prudent treasury policies.

**Capital expenditure**

The total capital expenditure of the Group during the year under review was approximately HK$88.6 million, as compared to HK$47.1 million for the same period last year. The amount was mainly used for the additions of land and buildings, leasehold improvements, motor vehicles and equipment and machinery in connection with the expansion and integration of its service network in Hong Kong, Mainland China and Southeast Asian regions.

**Contingent liabilities and capital commitment**

The Board considered that there was no material contingent liabilities as at 31 March 2013. The Group had capital commitment of HK$13.4 million as at 31 March 2013 (31 March 2012: HK$12.4 million), mainly for the acquisition of plant and equipment.

**Charges on assets**

As of 31 March 2013, the Group had pledged bank deposits of HK$47.2 million (31 March 2012: HK$7.1 million) in favour of certain banks to secure banking facilities granted to certain subsidiaries in the Group.

**Foreign exchange risk exposures**

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

**Significant acquisition and disposal**

On 30 August 2012, Rise Luck Development Limited, an indirect wholly-owned subsidiary of the Group (the "Vendor") entered into the provisional agreement with Dragon Advantage Limited (the "Purchaser") for the disposal of the property located at No. 5 Minden Avenue, Tsim Sha Tsui, Hong Kong (the "Property") at the consideration of HK$162.0 million. The Purchaser and its ultimate beneficial owners were third parties independent of the Group and its connected persons and there was no previous transaction entered into between the Group and the Purchaser prior to the disposal of the Property.

Due to the recent uncertainties caused by the European market, the Directors are of the view that the disposal would benefit the Group by reducing risks and improving the liquidity of the Group. The Group received net proceeds from the disposal (after deducting other expenses in relation to the disposal) of approximately HK$160.4 million and it is intended that such net proceeds will be used for general working capital purpose.

The Directors, including the independent non-executive Directors, consider that the terms of the disposal are on normal commercial terms, fair and reasonable and the disposal is in the interests of the Company and the shareholders as a whole.

Details of the disposal were set out in the announcement of the Group dated 30 August 2012. The disposal was completed on 15 November 2012.

**Human resources and training**

The Group had a workforce of 1,937 staff as of 31 March 2013 (31 March 2012: 1,879 staff), including 1,403 front-line service centre staff in Hong Kong, 115 in Mainland China and 222 in other Southeast Asian regions (Singapore and Malaysia). Back office staff totaled 129 in Hong Kong, 20 in Mainland China and 48 in Southern Asian regions.

The Group reviews its remuneration policies on a regular basis with reference to the legal framework, market conditions and performance of the Group and individual staff. The Remuneration Committee also reviews the remuneration policies and packages of executive directors and the senior management. Share options and discretionary bonus are also granted to eligible employees based on the Group's results and individual performance of the employees. The Group has adopted the share option scheme since 20 January 2006. As at 31 March 2013, 6,300,000 share options have been granted to certain directors, senior management and employees of the Group. Pursuant to the remuneration policies of the Group, employees' remunerations comply with the legal requirements of all jurisdictions in which we operate, and are in line with the market rates. During the year under review, total employee benefit expenses including directors' emoluments amounted to HK$397.5 million, representing a 8.4% increase as compared to HK$366.8 million in 2012.

To enhance the service quality and core skills of our staff members, the Group regularly organizes training programs designed by the Group's senior management for its staff. In addition, the seminars also facilitate the interaction and communication between the Group's management and the general staff.

### Corporate social responsibility

While devote ourselves to bringing reasonable returns for the shareholders, the Group is also committed to contributing to the beauty industry. The Group established the Beauty Expert International College in Hong Kong in 2002. The teachers of the college possess various international professional accreditations and years of experience, and are devoted to nurturing professional and well-rounded students. Upon graduation, the students are able to explore their career path in the beauty business and contribute to the industry. Students with outstanding achievements are also given the opportunity to join our Group's professional team.

The Group attaches great importance to the safety of our services and products, and exercises stringent control on the ingredients and hygienic packaging of the products it uses and sells, which have all been certified to be up to international standards. To ensure its professional service quality, the Group regularly arranges appropriate trainings or further studies for its staff. The equipments used in our services have also attained international safety standards.

The Group strives to provide services and a working environment that is both green and healthy. In a bid to conserve energy, the Group has implemented specific policies stipulating the appropriate use of air conditioning and reduction in our water consumption at service centres.

## OUTLOOK

The Group is committed to ensuring the safety and quality of the services and products offered in its beauty and wellness centres. During the year under review, the series of beauty treatment incidents within the industry caused rise in the public awareness towards the service safety of the industry. It is also expected that regulatory authorities will implement various measures to safeguard the consumers. We have been imposing stringent quality control on the skincare and wellness products used and sold by us. We ensure that the ingredients of our products are safe and reliable with a quality up to international standards. In addition, the Group regularly arranges various training programs for our service team, in a bid to constantly improve our professional service standards. Therefore, the Group believes that regulatory measures will have limited impact on its business operations and operating costs.

In response to the increased market demand on highly effective services, the Group will continue to identify and introduce safe and advanced beauty and slimming equipments and products, in order to meet market needs and increase business profits. In the meantime, the Group will also provide its service team with relevant training to ensure service quality. Advanced beauty equipments and a professional team will help strengthen the Group's competence, thereby enhancing the Group's brand status in the market. With years of dedication, the Group will spare no effort providing quality services, gaining trust from its customers and laying a solid ground for the Group's future development, striving to seize better potential returns.

During the year under review, the Group carried out integrating and renovating work for different branches. It is expected that the integrated service centre network will provide customers with convenient access, which will help the Group to expand customer coverage, promote brand name and develop business. Rental for premises in Hong Kong stands high as driven by the economic environment. The Group believes that the integrated service centre network will be beneficial to the Group's control on occupancy costs. Apart from occupancy costs, the Group will continue taking the initiative to exercise strict cost control in all aspects, provided that the quality of services and products is unaffected. Moreover, according to the accounting policies, deferred revenue will be recognised in the upcoming financial years according to actual situations. With the steady growth of receipts from sales of prepaid beauty packages, the Group is confident in our business prospect and anticipates that loss is only temporary.

Capitalising on the business opportunities, the Group has tapped into the Mainland China, Singapore and Malaysia markets over recent years. The Group will continue to develop in the respective markets and consolidate its local market presence. Moreover, the Group has been identifying more suitable opportunities to explore the beauty and slimming service market in Southeast Asian regions including Taiwan and Macau, so as to expand our operating territory and enhance our market share in the Asian market. The Group has established its first two beauty service centres in Taiwan in the second quarter of 2013, and will keep our active yet prudent pace in developing the local business, in a bid to explore new source of business revenue.

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

During the year ended 31 March 2013, the Company did not redeem, and neither the Company nor any of its subsidiaries purchased or sold, any of the Company's listed securities.

## CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting of the Company is scheduled on Friday, 30 August 2013. For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Wednesday, 28 August 2013 to Friday, 30 August 2013, 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 Tuesday, 27 August 2013.

The proposed special 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 special dividend is Tuesday, 10 September 2013. For determining the entitlement to the proposed special dividend, the register of members of the Company will be closed from Friday, 6 September 2013 to Tuesday, 10 September 2013, both days inclusive, during which period no transfer of share will be effected. In order to qualify for the proposed special dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Thursday, 5 September 2013. The payment of special dividend will be made on Wednesday, 2 October 2013.

## CORPORATE GOVERNANCE PRACTICE

The Company is committed to principles of good corporate governance consistent with prudent management and enhancement of shareholder value, which emphasize transparency, accountability and independence.

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

During the year ended 31 March 2013, the Company has met the code provisions in the Code, except for the deviation from Code Provision A.2.1 as discussed in the section headed "Chairperson and Chief Executive Officer" below.

## CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

During the year under review, Ms. Tsang Yue, Joyce ("Ms. Tsang") has been both the Chairperson and CEO of the Company. Code Provision A.2.1 of the Code stipulates that the role of chairperson and chief executive should be separate and should not be performed by the same individual. After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairperson of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management. As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the senior management of the Group.

### Audit Committee

The composition of the Audit Committee is as follows:

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

The Audit Committee had reviewed and approved the Group's annual results for the year ended 31 March 2013 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 30 July 2013 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, 26 June 2013

*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 Ms. Yeung See Man and four independent non-executive Directors, Ms. Liu Mei Ling, Rhoda, Mr. Wong Man Hin, Raymond, Mr. Hong Po Kui, Martin and Mr. Lam Tak Leung.*